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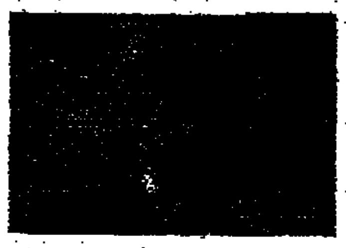

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Crédit Lyonnais to get $760m rescue ■ Paris warned to keep EU informed

Brussels backs French bank bail-out

By Neil Buckley in Brussels and Andrew Jack in Paris

The European Commission yesterday approved a FFr3.9bn ($760m) bail-out of Crédit Lyonnais but sharply criticised the French government for *failing to keep it informed of* the troubled bank's dire state.

Mr Karel Van Miert, European Union competition commissioner, said the emergency measures were the first step towards negotiating a new restructuring plan for the state-owned bank. This was likely to be even larger than the FFr45bn state aid package agreed last year – the biggest yet approved by Brussels.

The plan is likely to be closely studied by other European banks. Last year's package was criticised in particular by other French banks, which argued it was too generous and distorted competition.

But the 20 European commissioners approved the emergency measures unanimously. "No one could ever even think of having the collapse of a bank like this," one commission official said. But he added that Brussels would take a hard line on broader restructuring plans.

Mr Van Miert warned that conditions attached to any new aid plan would be "tougher than tough", involving bigger disposals by the bank than the 35 per cent of its foreign assets agreed last year.

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Last year's plan was agreed after tough talks between the Commission and France to rescue Crédit Lyonnais after it made FFr21bn losses between 1992 and 1994 as a result of an over-ambitious expansion strategy and imprudent lending.

That plan had not achieved the expected turnaround, Mr Van Miert added, and without yesterday's emergency measures the bank's future would have been in doubt. "If you are interested in [buying] Crédit Lyonnais, I am sure you can get it for one symbolic franc," he said.

"These measures are to avoid a further deterioration. That will allow time for the Commission to scrutinise fully the additional plans the French government will put to us."

Crédit Lyonnais on Tuesday postponed today's planned announcement of its half-year results, expected to show losses of about FFr2bn. Simultaneously, the French government asked the Commission to approve immediate action to offset the losses and to reopen discussions on action to safeguard the bank's future.

Most of the FFr3.9bn is to cover the costs of a FFr135bn loan Crédit Lyonnais made at below-market rates to a holding company which last year took over many of its poorest-performing businesses. The holding company is preparing the assets for re-sale.

Because it could recoup only 85 per cent of the financing costs, the loan cost Crédit Lyonnais about FFr560m last year, rising to FFr3bn this year. The French bank has been unable to absorb these costs because of a shortfall in revenues resulting from France's economic slowdown.

Mr Van Miert warned France to keep the Commission more closely informed of its plans, complaining that it only recently became aware of the extent of the bank's problems.

"We have not been fully informed of what was happening, despite written commitments from France not to implement any measures without express permission from the commission," he said.

Last week Mr Van Miert ordered a new investigation into suspicions that Crédit Lyonnais was allowed to repurchase a former subsidiary on advantageous terms – a form of illegal state aid.

Palestinian youths take to the streets of Gaza yesterday to protest against the opening of a tunnel in the old city of Jerusalem. Witnesses said the protesters threw stones as they moved towards the outskirts of the Arab city of Ramallah. Picture: Reuter

Israeli troops in gun battle on West Bank

By Judy Dempsey in Jerusalem

Israeli troops yesterday fought gun battles with Yassir Arafat's police in the West Bank city of Ramallah, killing at least four Palestinians and wounding more than 200.

In a serious setback for the Mideast peace process, the troops opened fire after hundreds of youths took the streets to protest at the opening of a tunnel in the old city of Jerusalem.

The tunnel runs along the Western Wall, the holiest site of the Jews, close to Temple Mount, the third holiest site in Islam. Palestinians see the move as an attempt by Israel to consolidate its control over the entire city after it captured east Jerusalem in the 1967 Arab-Israeli war.

Witnesses said the youths moved towards the outskirts of the Arab city of Ramallah whose entrance is manned by Israeli checkpoints. They threw stones, reminiscent of the *intifada*, or uprising by Palestinians in the Israeli-occupied territories in late 1987.

Mr Yassir Arafat, president of the Palestinian Authority, yesterday pleaded with Palestinian police who control Ramallah to hold their fire and stay within the town's boundaries.

The Israeli defence forces last night said none of its troops had entered Ramallah, leaving last year's interim agreement on the West Bank intact.

Officials from Israel's opposition Labour party said the opening of the tunnel was bad timing.

The peace negotiations have virtually come to a standstill since the right-wing nationalist Likud party, headed by Mr Benjamin Netanyahu, the prime minister, was elected last May.

Mrs Hanan Ashrawi, higher education minister in the Palestinian Authority, said the opening of the tunnel provided a catalyst for yesterday's events.

"In circumstances where the peace negotiations would have been progressing, the opening of the tunnel would not have sparked such a reaction," she

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Spying row puts US-Korea links under pressure

A civilian computer expert working for the US Office of Naval Intelligence, was arrested in Washington and charged with passing on classified information to a South Korean agent. The arrest threatened to further strain relations between the US and South Korea. Seoul has been pressing Washington to adopt a tough stance against the communist North after the recent intrusion of a North Korean submarine into South Korean waters. Page 5

Inquiry demand on IRA shooting: Irish prime minister John Bruton backed calls for an independent inquiry into the shooting of IRA suspect Diarmuid O'Neill, amid claims by some politicians that British police may have operated a "shoot to kill" policy. Page 8; Ireland's mascot for the gullible, Page 10

Yeltsin's heart operation delayed:

Russian president Boris Yeltsin (above) met pioneering US heart surgeon Michael DeBakey in Moscow as it was announced that his by-pass operation will be delayed for up to eight weeks. The delay has sparked fears in Russia and the west about the president's ability to control his quarrelling subordinates. Page 12

Lord Hanson to step down: Lord Hanson, Britain's most swashbuckling takeover king and the scourge of sleepy managements on both sides of the Atlantic, will retire from the chair of Hanson next year. Page 13

Ministers push for IT trade deal: Trade ministers from the US, EU, Japan and Canada meet today in Seattle to try to end squabbling which has thwarted a free trade deal for information technology products. Page 6

Fed warned over interest rates: The International Monetary Fund warned the US Federal Reserve that it will have to get over its reluctance to raise interest rates soon to avoid a sharper rise later. Page 12

Volvo aims for two-year turnround: Swedish vehicles group Volvo expects to take up to two years to turn round its unprofitable US truck business despite the launch of an important new model. Page 15

Lehman reveals fall in earnings: Lehman Brothers, the first of the US investment banks to publish third-quarter earnings, reported net income of $77m, down from $108m in the second quarter. Page 17

France threatens US over NATO: France threatened to hold back from rejoining Nato's military wing in a dispute with the US over who controls Europe's regional commands. Page 3

Plea over Bosnia's refugees: Bosnia's president Alija Izetbegovic said that international efforts there would be at risk unless more refugees are able to return home. Only a handful of the 2m have been able to do so. Page 3

Mandela firm on death penalty: South African president Nelson Mandela said he would not consider reinstating the death penalty despite a poll showing 93 per cent of South Africans arre in favour of it to fight violent crime.

Airlines link-up at risk: British Airways may walk away from a proposed link with American Airlines over conditions the UK Office of Fair Trading is thought to be condidering. These may involve the airlines having to surrender some slots at Heathrow airport. Page 6

Japan acts over insurance row: Tokyo tried to avert a row with the US over Japan's insurance market, the world's second largest and a lucrative area for foreign insurers. Page 6

Pan Am flies again: One of the best-known names in aviation history takes to the skies again today when the new Pan American World Airways launches its inaugural flight from New York to Miami. Page 17

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■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,886.63	(-7.40)
NASDAQ Composite	1,220.39	(+5.12)
Europe and Far East		
CAC40	2,103.41	(+21.91)
DAX	2,658.97	(+20.52)
FT-SE 100	3,935.7	(+25.2)
Nikkei	21,350.67	(+178.68)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.062%
Long Bond	97¾
Yield	6.939%

■ OTHER RATES

UK: 3-mo Interbank	5⅞%	(5⅞%)
UK: 10 yr Gilt	96¾	(97⅞)
France: 10 yr OAT	102.66	(102.23)
Germany: 10 yr Bund	101.12	(100.80)
Japan: 10 yr JGB	101.3972	(101.107)

■ NORTH SEA OIL (Argus)

Brent Dated	$23.01	(22.79)

■ GOLD

New York Comex		
Dec	$385.3	(385.7)
London:		
close	$382.55	(382.05)

■ DOLLAR

New York lunchtime		
£	1.56325	
DM	1.512	
FFr	5.1166	
SFr	1.23595	
Y	110.305	
London:		
£	1.5645	(1.558)
DM	1.5102	(1.5132)
FFr	5.1113	(5.1206)
SFr	1.2335	(1.2372)
Y	110.295	(109.765)
Tokyo close:	Y 109.65	

■ STERLING

DM	2.3627	(2.3575)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira120	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 26	Japan	Y500	Pakistan	Rs50	Syria	S£90.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Esc265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

$33m offer to settle accounting error claim

By Andrew Hill in Milan

The Italian arm of Price Waterhouse, the international accountancy firm, has offered to pay L51bn ($33.68m) to Montedison, the Italian industrial company, and its parent Compart, formerly known as Ferruzzi Finanziaria (Ferfin), to settle a L1,650bn negligence claim.

The two Italian companies said yesterday they viewed the offer, one of the largest ever made to settle an accounting negligence suit in Italy, positively. They would call shareholder assemblies to consider both it and a separate L8.5bn payment proposed by a former Montedison manager against whom the group had made claims.

In 1993, Montedison and Ferfin came close to collapse after management revealed at a dramatic shareholders' meeting that group losses for 1992 were 35 per cent higher than originally announced, triggering allegations of mismanagement and corruption.

Montedison and Ferfin claimed damages of L1,000bn and L650bn respectively from Price Waterhouse in 1994. They alleged "serious negligence" on the part of the firm, which audited Ferfin's accounts from 1987 to 1992, and Montedison's from 1983 to 1992. Price Waterhouse said at the

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British Telecom in deal to enter French market

By FT reporters

British Telecommunications is today expected to announce it has filled the last big gap in its European strategy through a strategic alliance with a French partner.

It is expected to announce a deal with Compagnie Générale des Eaux, the French utilities, property and communications group. Analysts say the deal is critical to BT's ambition to become Europe's leading telecoms operator.

The French market, the second largest in Europe, had been proving impenetrable to BT and to other would-be competitors to France Télécom, the state-owned operator.

Last night, neither company would confirm that the alliance had been agreed but both companies are holding press conferences at identical times in London and Paris this morning. The CGE conference has been called to discuss international alliances in telecommunications.

It is understood the alliance will be a joint venture with BT as minority partner. There will be no exchange of shareholdings. The merchant bank N.M. Rothschild advised BT on the deal.

BT has been seeking a French partner for more than two years. It has concluded a series of alliances and joint ventures in the main European economies ahead of the opening up of the European market to full competition on January 1 1998.

Générale des Eaux disclosed earlier this month that discussions were in progress with a number of "large international groups" interested in taking a stake in a telecoms division it was setting up that would be known as Cegetel.

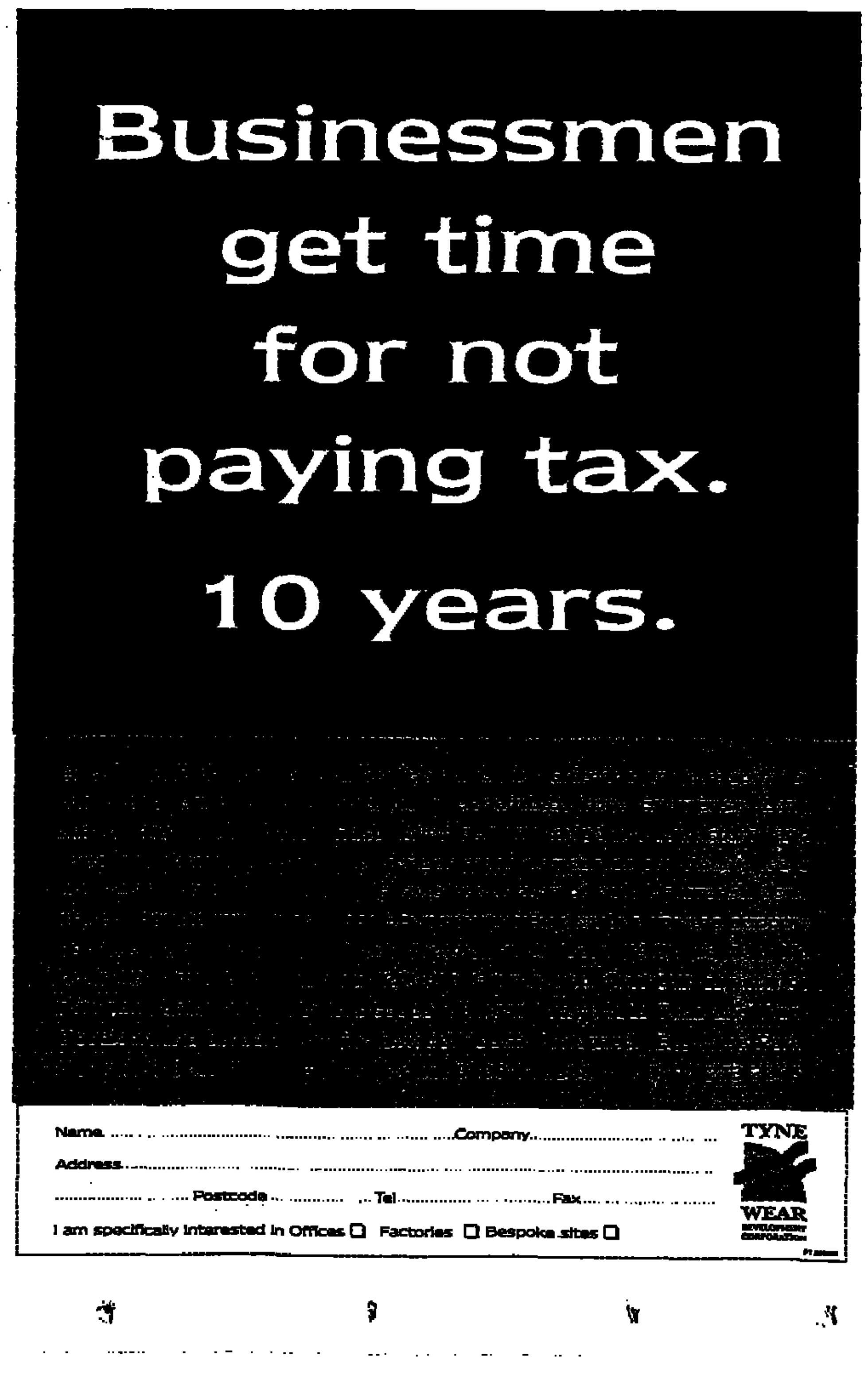
Mr Jean-Marie Messier, the group's recently elevated chairman and chief executive, refused to confirm whether any of the groups it was talking to were UK-based.

However, the company has made no secret of its intention to exploit the full opening to competition of the French telecoms market to take on France Télécom in all the main segments of the FFr117bn ($23bn) French domestic market.

According to Mr Messier, the group is to "position ourselves as the alternative operator to France Télécom". For long-distance calls, it intends to develop an alternative network with the help of partners with "specific infrastructures" at their disposal. One candidate for such a partnership could be SNCF, the state-controlled French railway company.

By 2003, Générale des Eaux is aiming for a market share of 40 per cent in the mobile telephone sector where it expects the bulk of market growth to be concentrated.

Report by Alan Cane and Nicholas Denton in London and David Owen in Paris



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Maastricht 'jobs chapter' wins support

By Lionel Barber in Brussels

A Scandinavian campaign to write a "jobs chapter" into a revised Maastricht treaty is gaining ground in the European Union's intergovernmental conference (IGC).

The Scandinavians have won majority support for the principle of new treaty language on employment despite reservations in British, French and German circles worried about creating unrealistic expectations. The Danes and Swedes say a jobs chapter would improve co-ordination of labour market policy, bolstering the fight against unemployment in the EU, where more than 17m are out of work. The Scandinavians also believe a new treaty chapter would strengthen their chances of winning ratification of the revised Maastricht treaty.

The jobs chapter would draw heavily from the EU summit communiqué in Essen in December 1994.

Advocates stress it would not tamper with the treaty's commitment to monetary stability and would probably be balanced by language on the need to safeguard competitiveness. Principal elements are:

- New language setting out common aims and common procedures in labour market policy geared to helping young people, especially school-leavers without qualifications; investing in training; and lowering non-wage costs.
- A multi-annual programme in pursuit of the treaty's employment goals, monitored by the European Commission and by finance and social affairs ministers.
- Creation of an employment committee, drawn from member states and the Commission, to complement the powerful monetary committee in Brussels composed of national treasury officials.

Mr Niels Ersboll, Danish representative at the IGC, said new treaty language "would expose weaknesses in the national efforts" on employment and exert pressures in much the same way as the Organisation for Economic Co-operation and Development (OECD) reports on national economies.

Mr Michael Patijn, Dutch state secretary for foreign affairs, singled out employment as one of the areas where the IGC could expect early agreement. Others include support for a new high representative to raise the profile of EU foreign policy, supported by a new Brussels-based planning unit; measures to strengthen transparency and openness in the EU; and subsidiarity or devolving decision-making to the lowest appropriate level.

Mr Patijn, who will chair the IGC when the Dutch take over the rotating EU presidency from Ireland on January 1, said the harder issues would have to be settled at a later date, most likely after the UK election, which must be held by May.

The toughest nuts to crack include weighting of votes of small and large countries; extension of majority voting and possible dilution of the national veto; the role of the European Court of Justice in immigration and home affairs; the scope of a new "flexibility" clause allowing deeper co-operation among select countries; and size of the European Commission.

France, Luxembourg on course, Page 4

German sick pay cut stirs unions

By Wolfgang Münchau in Frankfurt

Large sections of German industry are heading for industrial and legal confrontation with trade unions after some of the country's biggest companies decided to cut sick pay from next Tuesday.

The decision to cut sick pay unilaterally underscores employers' growing frustration over Germany's high wage costs. An official in one of the companies involved said: "This is not about sick pay, this is about a lot more. This is about whether we can continue producing in Germany."

Siemens and Mannesmann, the electronic and engineering groups, said they would cut sick pay by 20 per cent, and BASF and Hoechst, the chemicals giants, said they would follow suit. Daimler-Benz, Germany's largest industrial company, announced a similar cut last Tuesday.

IG Metall, the engineering union, has warned of industrial and legal action against what it considers a breach of contract. Daimler-Benz workers are threatening to ban overtime.

The controversy stems from a new law – part of the government's savings package – cutting statutory minimum sick pay from 100 per cent of gross wages to 80 per cent next week. Existing labour contracts enshrine the previous minimum or more generous packages.

The government claims the new law would save around DM60bn ($40bn) in labour costs. Siemens says its sick pay bill is around DM380m a year – almost 20 per cent of net profits. Companies also hope a less generous sick pay regime would cut absenteeism.

The decision to cut sick pay comes a few months before a critical wage round in the engineering and electrical sector, with pay and working conditions both up for renegotiation.

But the consensus among employers showed signs of strain, as Volkswagen, the car maker, and Preussag, the metal groups, breaking ranks and siding with their workforces.

The legal situation will vary from company to company. BASF, Hoechst and other chemicals groups are unlikely to face a legal challenge because their work contracts have no sick pay provisions.

But Daimler-Benz and Siemens risk legal action because both companies have given their workers contractual sick pay guarantees. Mercedes-Benz car workers in northern Baden-Württemberg have contracts guaranteeing full sick pay for a maximum 78 weeks.

Armenians on the march: demonstrators on Monday took to the streets of Yerevan following Sunday's disputed election Reuter

ARMENIAN DEMONSTRATORS TRY TO STORM PARLIAMENT

By Sander Thoenes in Yerevan

Troops attacked demonstrators and fired shots over their heads in the streets of the Armenian capital, Yerevan, yesterday after protests over alleged electoral fraud turned violent. Dozens were injured but there were no confirmed reports that anyone had been shot or killed.

The riots – the most serious since demonstrations against the former communist regime in the late 1980s – triggered fears among Armenians of serious civil conflict. The country is only just recovering after a war against Azerbaijan over the enclave of Ngorno-Karabakh which ended two years ago.

Yesterday's violence flared after about 40,000 people led by Mr Vazgen Manukian, the main opposition candidate in Sunday's presidential elections, gathered outside the parliament building where the Central Election Commission was meeting.

Mr Manukian accused President Levon Ter-Petrosian – who led the 1980s anti-communist riots – of falsifying the result and demanded that the commission say who really won. He entered the parliament building to press demands for a recount, telling the crowd he would be back in 30 minutes. After half an hour an aide appeared to tell demonstrators he was still in negotiations.

Fearing that he was being held against his will, demonstrators tore down the fence and rushed towards the parliament. Riot police and troops switched off street lights, fired into the air and beat back demonstrators with batons, water cannon and tear gas.

Last night Mr Manukian and his supporters had gathered in a small square near the US embassy – the supporters waving national flags and cheering speeches.

The election results, still unconfirmed, gave Mr Manukian 41.07 per cent against 52.09 per cent for Mr Ter-Petrosian. A Communist candidate got 6.21 per cent, and an independent 0.63 per cent.

After demonstrations against alleged vote-rigging in the last two days, the election commission yesterday agreed to invite formal complaints from local election officials and opposition representatives.

The 20-member commission – 14 from pro-government parties and six from the opposition – accepted a report by 89 monitors from the Organisation for Co-operation and Security in Europe (OCSE) that there had been breaches of election rules, particularly by the powerful military. But it rejected an opposition request to reopen some ballot boxes.

Some international observers complained that the OCSE's preliminary report had been too mild. They said it ignored serious violations in vote counting and attacked its conclusion that the irregularities had not materially affected the vote.

Squeezing out a state aid sponge

Crédit Lyonnais awaits a fourth and final restructuring, writes Andrew Jack

Rarely has an institution been forced to eat its words as quickly, comprehensively and frequently as Crédit Lyonnais, the bank owned by the French state which has lurched from one financial crisis to another in the last few years.

Just 18 months ago, when it unveiled details of an ambitious and controversial restructuring plan – the second in a year – the bank circulated a government-approved document explaining the outline of how the rescue would work.

"After a comprehensive audit, the restructuring... appears to everyone involved sufficient and definitive. It will permit a return to profit from 1995," it confidently stated.

However yesterday, after months of talks between Crédit Lyonnais and the French government – the European Commission in Brussels unveiled details of a costly revision. Without even pausing for breath, they added that discussions about what amounted to a fourth plan were also underway.

The problems of Crédit Lyonnais date back to its rapid and uncontrolled expansion – partly endorsed by and partly concealed from the government and regulators – which started in the late 1980s.

> The government wants to put an end to the problems of the past, and to make the bank perfectly competitive
>
> Jean Arthuis

It left the bank with poorly-documented, poorly-guaranteed and ultimately poorly-performing loans and investments, triggering cumulated losses of more than FFr21bn ($4.1bn) during 1992-94.

But these losses were only the start. In spring 1994, in a first restructuring, the French state agreed to underwrite up to FFr19bn in losses from property assets valued at FFr42bn which were stripped out of the bank's balance sheet into a company called OIG.

A year later, as the costs of its other poor investments continued to bear down during a period of low economic growth – and hence sluggish new business – a second plan was brokered. A wide variety of other largely rotten assets were removed from its balance sheet and merged with those from OIG into a new vehicle called CDR, with a mission to sell them off.

The intention in 1995, in the words of Mr Edmond Alphandéry, the minister of economics of the time, was that the bank should pay for the errors of its past. As a result, it was required to pay special dividends to the state against future profits, as well as normal dividends and taxes.

More significantly, it was required to finance the assets shifted to CDR – amounting to some FFr135bn – by making an almost equivalent sized loan. The loan which is channelled through EPFR, a state-guaranteed company, to CDR, would diminish as the assets were sold off.

The loan was structured to penalise Crédit Lyonnais. In the first 12 months of the plan's operation last year, the bank received just 7 per cent interest on the loan, while being forced to seek external financing to fund it at an average rate of 7.45 per cent. The difference cost it FFr560m, dragging down its performance so it reported just FFr13m in profits for 1995.

For 1996 – and all future years – the below-market interest payments on the remaining amount of the loan it made to EPFR were fixed at 85 per cent of money market rates, or currently about 3.3 per cent compared with the real financing cost to the bank of 5.84 per cent. This difference was set to cost it FFr3bn for the year.

While this FFr3.6bn charge for 1995-96 was clearly predictable, less obvious was how changes in the French economy would affect the on-going performance of Crédit Lyonnais. Gradual reductions in interest rates have forced it to lend to customers at lower rates, while being locked in to paying higher interest rates to those from whom it borrowed money in the past.

Like its rivals, it has also suffered from the continued gloomy state of the domestic banking market, characterised by low demand for credit and intense competition which has forced down its margins.

As a result, the need to modify the plan became clearer – backed up by periodic threats from Mr Jean Peyrelevade, the bank's chairman, to resign unless the government accepted his demands.

In fact one modification had already been made. Crédit Lyonnais' loan to EPFR was just FFr123bn, after reductions. These included a FFr10bn reduction originally supposed to fund the purchase of bonds, never ultimately bought, designed to cover the ultimate losses triggered by the sale of its assets.

Waiving this sum amounted to a reduction in the interest costs imposed on the bank – calculated for 1995 and 1996 by the European Commission yesterday at FFr300m. That came on top of the FFr3.6bn in real costs to the bank of its loan which Brussels approved.

Negotiators have now given themselves breathing space to draw up what they hope will be a final rescue plan.

They will no doubt be delighted when an eventual privatisation at last removes one of the most malingering cases of state aid with which they have ever had to deal.

Bulgaria to put state companies in hock

By Anthony Robinson in London and Nikolay Petrov in Sofia

Bulgaria is expected to offer future earnings from privatising its state telecommunications company and other prime assets as collateral for a substantial bridging loan from foreign commercial banks to shore up its tottering economy.

The socialist government also hopes to ensure payment from the IMF of a delayed $115m tranche of a $580m standby loan signed earlier this year.

It urgently needs to raise cash to protect depositors in the nine private and state banks put under government supervision this week against possible losses, and to finance a budget knocked sideways by this week's near tripling of the central bank's key interest rate to 300 per cent a year.

The government of Mr Zhan Videnov, the prime minister, is anxious to demonstrate its determination to privatise partially 15 of the most attractive state companies as soon as possible.

It hopes to take advantage of this weekend's annual IMF/World Bank meeting to make contact with foreign bankers interested in financing the expected surge in privatisations. Bulgaria has sent a strong delegation, headed by Mr Dimitar Kostov, the finance minister and Mr Lyobomir Filipov, the governor of the Bulgarian National Bank and includes Mr Dancho Konakchiev, the first deputy prime minister in charge of the economy.

Deutsche Telekom and Stet, the Italian telecoms group, are among foreign companies discussing buying 25-40 per cent of the Bulgarian telecom company. The government hopes to raise up to $1bn by the middle of next year.

Negotiations are also well advanced for the sale of a significant stake in Soda Devnya, a profitable, export-orientated chemical company. The sales list also includes mining and smelting companies, two shipyards and several engineering and chemical companies.

To encourage strategic investors and reduce outstanding foreign debt the government is expected to allow investors to use a combination of cash and discounted Bulgarian Brady bonds to purchase assets. "Investors are being offered the opportunity to buy devalued assets at attractive prices through debt-equity swaps," said Mr Olivier Descamps of the European bank for Reconstruction and Development.

The last few days have seen higher prices and a small appreciation in Bulgarian Brady bonds in a market depressed by fears over President Boris Yeltsin's health and prospects of a rise in US interest rates," said Mr Alex Babov of J P Morgan.

"Greater interest reflects the new opportunities for cash privatisation using Brady bonds, tough action on the banks and talk of a collateralised bridging loan to strengthen government finances," he added.

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EUROPEAN NEWS DIGEST

Pledge for east Germany

The German cabinet yesterday agreed that federal financial support for businesses in eastern Germany should be kept "at a high level" from 1999, when current plans expire.

After reviewing a progress report on the eastern German economy, Mr Günter Rexrodt, the economics minister, said details of the aid would be fixed next year when the government had a better idea of the impact of tax changes due in 1997 and the large scale tax reform that it is planning for 1999. He indicated that aid would be focused on manufacturing industry, and especially the small to medium-sized *Mittelstand* companies.

The minister said eastern Germany continued to suffer from too narrow an industrial base and provided only 2 per cent of Germany's exports. Unit labour costs were too high: they averaged 131 per cent of western German levels last year and were higher than the year before. Eastern German companies also had insufficient capital resources and suffered liquidity shortages.

However, the minister forecast that growth in the new *Länder* would be higher than in the west, although the period of exceptionally fast expansion was over.

The economics ministry expects that western support for eastern German companies will amount to about DM25bn ($16.6bn) this year out of net transfers totalling DM144bn. *Peter Norman, Bonn*

Metro threatened by strike

Strike action by France's communist-led CGT trade union is threatening to halt the Paris metro, regional express trains and the bus network from tonight until Saturday morning.

Paris's largest union of public transport and maintenance workers urged members to strike for two hours at the end of each shift to demand more jobs, a pay rise and better working conditions while the RATP transport authority board meets tomorrow.

An RATP spokesman said it was not clear how the staggered stoppages would affect passenger services.

Yesterday stoppages by railway employees worried over possible job losses disrupted regional services in south-west France for a second day.

Only one train in five ran on the main routes in the region, though high-speed TGV passenger trains were unaffected by the stoppages, SNCF officials said. *Reuter, Paris*

Spain seeks pensions pact

Spain's centre-right government said yesterday it would try to win support from employers' organisations for a draft agreement on pension reform reached with the main trade unions.

Mr Javier Arenas, labour minister, said the country was on the way to a national pension pact, but recognised that negotiations might prove "more difficult" with employers, who have been seeking a pledge of reductions in their social security contributions. The planned pension changes, based on an agreement between Spain's main political parties last year, are a watered-down version of the government's proposals for curbing costs. A change in the way pensions are calculated, extending the base period from eight years to 15, will be phased in slowly, and plans to reduce benefits for people retiring early have been dropped. The scheme guarantees protection of state pensions against inflation. The UGT and Workers' Commissions unions, which have still to approve the plan, warned the government against a making a separate pact with employers. *David White, Madrid*

Portugal's right in disarray

Portugal's rightwing Popular Party (PP) has headed into uncertainty after its 34-year-old leader resigned, his authority challenged by a radical young firebrand.

Mr Manuel Monteiro, who had tapped anti-European sentiment to increase the party's parliamentary seats from five to 15 in last year's general election, quit on Tuesday night as a split between rival factions threatened his hold over the party.

The challenge comes from Mr Paulo Portas, a former newspaper editor, who favours more radical opposition to the minority Socialist government. Mr Portas's unsuccessful bid for the leadership of the PP's parliamentary group this week exposed the deep split in the party. Mr Monteiro, reflecting the more moderate position of businessmen who support the PP, has been reserved in his opposition to the government and reached an agreement with the Socialists that led to the approval of the 1996 budget.

An extraordinary party congress to elect a new leader is due to be held later this year. Mr Monteiro is expected not to seek re-election, hoping that Mr Portas will take over the leadership while the party is in crisis, before attempting a comeback. *Peter Wise, Lisbon*

Greek cabinet sworn in

Greece's socialist Prime Minister Costas Simitis (*pictured above*) and his new cabinet were sworn in yesterday by President Costis Stephanopoulos at the start of their four-year term.

In a televised ceremony, Orthodox priests chanted a blessing for the new government while Mr Simitis swore an oath of office. After winning Sunday's national election, Mr Simitis has formed a cabinet which mixes experienced ministers with a new generation of reformers who helped to put him in power.

He succeeded the party's founder, the late Andreas Papandreou, as prime minister in January. *Reuter, Athens*

Uranium trader agrees debts

Mr Oren Benton, the Denver entrepreneur whose international uranium trading empire crashed in 1995 owing money to nearly all of the world's big nuclear power companies, has reached agreement with most of his creditors. He has negotiated down the sums claimed by the 18 largest creditors from a total of about US$800m to $450m. Among the big creditors are: Russia's Ministry of Atomic Energy; China Nuclear Energy Corporation; three Swiss utilities – NOK, KKL and KKG; Enel, the Italian state electricity group; British Nuclear Fuels and Nuclear Electric of the UK; as well as Union Bank of Switzerland.

The US Revenue Service is maintaining its demand for $278.6m back taxes which Mr Benton insists is an inflated claim. Mr Carl Eklund, a Denver lawyer representing some creditors, said yesterday negotiations with the Revenue were continuing. The liquidation plan needs bankruptcy court approval. *Kenneth Gooding, London*

NEWS: EUROPE

France stands firm on Nato

By Bruce Clark in Bergen

France said yesterday it would not rejoin Nato's military wing unless the US kept its promise to give its European partners greater independence within the alliance.

Mr Charles Millon, the French defence minister told a Nato meeting his country would "remain in its current position" unless the pre-conditions spelt out by President Jacques Chirac for reintegrating with the Alliance were met.

"The issue of renewing Nato will only be resolved when the conditions laid out by the president have been taken into account," he said, referring to France's demand for a more visible European wing of the Alliance.

At a Nato meeting in Norway, the French minister made clear that one of the tests of American goodwill was the controversial issue of who should command alliance forces in southern Europe.

The highly sensitive southern command, based at Naples and responsible for overseeing the Mediterranean and North Africa, has always been held by a US officer. France thinks it should go to a European.

Nato officials said France's position was broadly supported yesterday by Germany, Italy and Spain, but firmly opposed by the US, and dismissed by Britain as unrealistic.

Nato agreed in principle in June to reform the alliance to give European members the option of organising military operations without direct US involvement.

France has said it wants the broad outline of this reform, which will involve a sharp reduction in the total number of command posts, to be complete by the end of this year.

At yesterday's meeting, Mr William Perry, the US defence secretary reaffirmed Washington's view that US officers must retain the Naples job, which includes responsibility for air, sea and land operations in former Yugoslavia as well as the Aegean.

The defence ministers also sketched out guidelines for a military mission to Bosnia next year, and several called for a tougher mandate to pursue war criminals.

The term "FOFOR" – following-on to the 52,000-strong Implementation Force currently deployed in Bosnia – gained currency yesterday as a new piece of Nato jargon. "Nobody disagreed with the idea of a FOFOR" said an official who attended the talks.

While stressing that no formal decisions were likely for at least two months, Nato ministers broadly accepted the view of Mr Javier Solana, the secretary-general, that the alliance should remain involved in Bosnia after the expiry of its mandate in December.

Mr Millon said a two-year plan to consolidate peace in Bosnia should be mapped out – and it should include a clearly defined role for a new military mission, including both Europeans and American. Ministers agreed that the new force, while smaller than IFOR, should have a robust rapid-reaction capacity.

Mr Volker Ruhe of Germany is the only western defence minister to have spoken in any detail about the shape of a successor force to IFOR. He says he expects a mission of about 20,000, of which between 2,000 and 3,000, including combat troops and senior officers, would be German.

Mr Ruhe has also floated the idea that a Franco-German brigade headquarters could be deployed to Bosnia to oversee one of the Republic's three military sectors - leaving the US and Britain with responsibility for the other two.

Moslem president tells the UN assembly of fears of resumption of conflict unless Serb authorities relent

Bosnia peace 'hinges on return of refugees'

By Laura Silber at the United Nations in New York

Bosnia's President Alija Izetbegovic yesterday warned that international efforts to usher in new institutions involving all Bosnia's ethnic groups would falter unless refugees were allowed to return home.

In a speech to be delivered last night at the United Nations, Mr Izetbegovic, a Moslem, said the "selective implementation" of the Dayton accords would not cement the peace.

Only a handful of Bosnia's 2m and more refugees have returned to their homes, indicted war criminals remain at large, and Serb and Croat authorities retain their grip over the media – all contrary to the Dayton peace agreement signed last December.

Bosnian Moslem leaders recently made clear that future co-operation with the Dayton accords hinges on Serb authorities allowing the return of refugees. Otherwise, they say there will be more war.

International envoys are now trying to urge the rival parties, who waged war for Bosnia's partition, to co-operate in the building of joint institutions after more than half the country backed Serb and Croat nationalist parties in Bosnia's first peacetime poll on September 14.

In remarks before his speech to the UN General Assembly, Mr Izetbegovic – who was elected chairman of the country's three-man presidency – said: "A new war would start if Bosnia-Hercegovina fell apart. Dayton was expensive. But partition will cost still more."

Diplomats say the challenge to avoid partition also hinges on Mr Izetbegovic's ability to act as president of Bosnia's divided communities.

The 71-year-old president himself called attention to this challenge. He said he had written the first half of his speech to the UN as a Bosniak (Moslem); the second as a Bosnian representing the country's Moslems, Serbs and Croats.

In his address to the UN, Germany's foreign minister, Mr Klaus Kinkel, yesterday added his voice to calls for the swift creation of joint institutions, saying the three-man presidency should meet in Sarajevo before the end of September.

But the new presidency – a Moslem, a Serb and a Croat – remains in deadlock over the venue for the first meeting, as the Bosnian Serb candidate so far has refused to go to Sarajevo.

The presidency can meet only after the Organisation for Security and Co-operation in Europe (OSCE), which oversaw the imperfect poll, certifies Bosnia's elections. The OSCE yesterday said the decision would be made by Monday.

The vote count has been plagued by controversy.

An Italian soldier stands guard as rifles and machine guns confiscated by Nato troops from Bosnian Moslems are destroyed by a tank Reuter

Government aid seals Italian jobs accord

By Robert Graham in Rome

The Italian centre-left government has organised an agreement between employers and unions to stimulate jobs in return for government assistance worth L15,000bn ($9.8bn) over the next three years.

The deal falls short of demands by Confindustria, the industrialists' federation, for full flexibility in the labour market. But it will soften the impact of a tough 1997 budget and help head off pay unrest.

The final details of the budget were being negotiated yesterday between the six main parties backing the government of Mr Romano Prodi in advance of tomorrow's crucial cabinet meeting which is due to endorse the financial package.

According to officials, the government is now looking to find L37,000bn in spending cuts and new revenues against the L32,000bn outlined in July in order to hold the deficit to 4.4 per cent of GDP.

The extra amount has become necessary as a result of a shortfall in revenues due to the sharper than expected slowdown in the economy.

The government also seems likely to adopt treasury proposals for additional budgetary measures totalling L20,000bn early next year to ensure that Italy meets the convergence criteria for economic and monetary union.

This follows the realisation after last weekend's Dublin meeting of EU ministers that Italy is unlikely to obtain special treatment if it fails to make a serious effort to meet the criteria.

Yesterday, the government's confidence in its ability to endorse a credible budget was reflected in the financial markets as the lira strengthened against the D-Mark and government bonds reached new highs.

Against the background of an austerity budget, the government was yesterday keen to present the employment package as a means of encouraging new investment when the economy was growing at little more than 0.5 per cent.

Of the total funds, L10,000bn was already approved in July for special projects in 1997-99. The key element in the agreement has been the concessions on job creation that employers and unions have wrung from the government.

The employers have gained tax breaks on social security contributions and on some investment costs related to new hirings. Especially favourable fiscal treatment will cover job creation in the south where unemployment is close to 25 per cent.

The unions fought off a wide-scale liberalisation of the labour market. But they accepted the principle of wage differentials in areas of high unemployment.

French scramble to buy cars before incentives go

By David Owen in Paris

French car registrations this month are likely to be almost double 1995 levels because of a last-minute dash by consumers to take advantage of government incentives that end next week.

The Comité des Constructeurs Français d'Automobiles said yesterday it expected September registrations to total about 210,000 compared with around 115,000 in September 1995 and 172,400 last month. The trade body, whose monthly statistics are the most closely watched gauge of the French car market, said at least half this month's orders were probably linked to the incentive programme.

While it will almost certainly prove short-lived, the scale of this month's increase will come as a boost to the government which badly needs an improvement in the country's sluggish growth to lift its popularity and underpin its hopes of qualifying for economic and monetary union.

Ministers were rocked this month by the disclosure that the economy contracted more sharply than expected in the second quarter. The surge in car sales, albeit at cut-throat prices, may be interpreted as promising news for the present quarter.

The extent of the upturn may also bolster those arguing either for an extension of the incentive scheme beyond September 30, or its replacement with a new version geared more closely to the value of individual cars.

Prime Minister Alain Juppé is due to make up his mind on this within the next few days. His cabinet colleagues are split on the issue: Mr Jean Arthuis, the finance minister, is against any extension or new measure; Mr Franck Borotra, industry minister, is understood to support continued assistance.

The French car industry is also divided. Mr Jacques Calvet, head of Peugeot Citroën, favours a bonus that would vary in line with car values. Mr Louis Schweitzer, head of Renault, says it is impossible to devise a bonus that does not advantage compact cars over larger models.

Under the incentive scheme, buyers of new cars are offered a bonus of FFr5,000 ($1,000) to FFr7,000 for trading in a vehicle at least eight years old.

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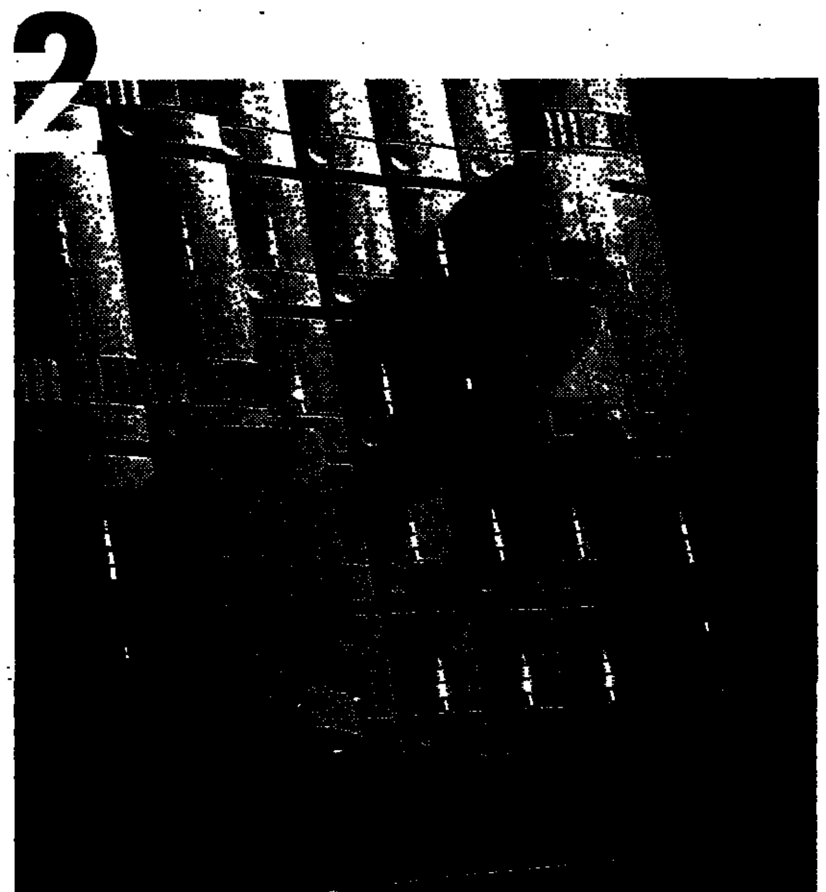

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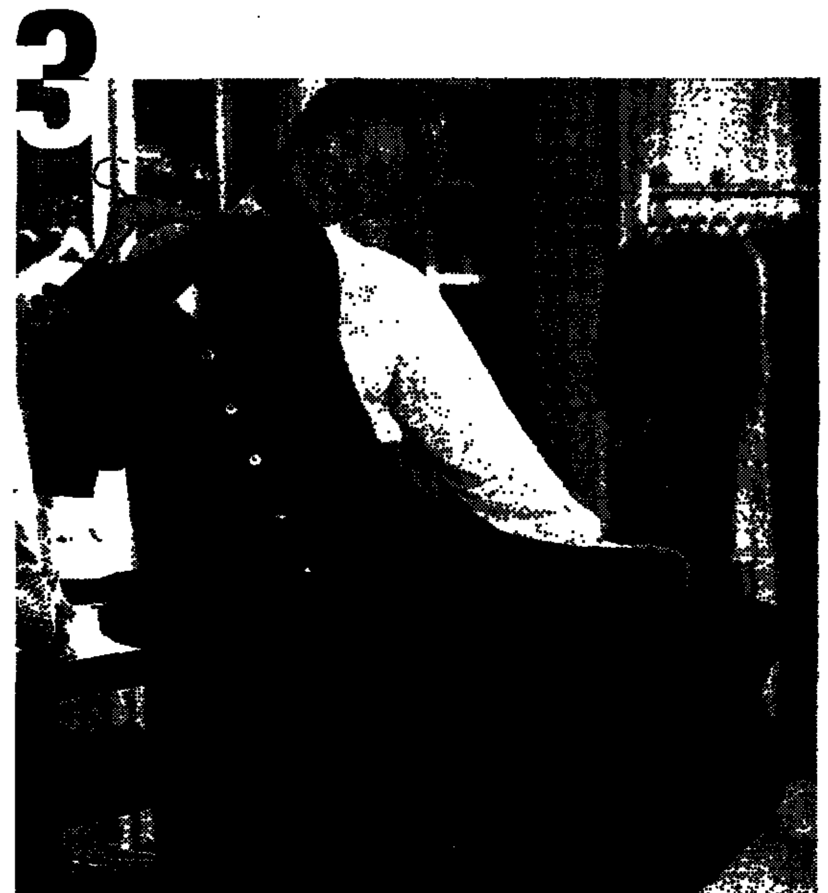

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Former east bloc lifts the world economy

The world economy's annual growth rate is set to accelerate gradually through the rest of the 1990s, according to the International Monetary Fund's latest World Economic Outlook. World trade growth is expected to slow, meanwhile, but to remain stronger than the rise in output would normally suggest.

Global growth is forecast to pick up to an average annual rate of 4.5 per cent between 1998 and 2001, a significant improvement from the 3.5 to 4 per cent recorded on average over the last quarter-century. This steep improvement in trend growth reflects a sharp rebound in activity in the transition economies of eastern Europe and the former Soviet Union, although this upturn will be vulnerable to setbacks in the process of stabilisation and reform.

Next year the world economy should grow by 4.1 per cent, up from 3.8 per cent in 1996, IMF economists believe. Growth in the developing world should fall slightly to 6.2 per cent, although this rate of increase remains well above the 2.5 per cent which is expected in the industrialised countries for the next few years. Among the Group of Seven (G7) nations, the pace of expansion is expected to accelerate next year in Germany, France, Italy, the UK and Canada, but to decelerate in the US and Japan.

Since its last World Economic Outlook in May, the IMF has downgraded its 1997 growth forecasts for four of the G7 countries. The largest revision is for Germany, where growth next year is expected to come in at 2.4 per cent rather than the 3 per cent forecast in the spring. The IMF forecasts that interest rates may have further to fall in Germany, even though it expects economic activity to continue strengthening over the coming year.

Growth in the European Union as a whole is forecast to accelerate from 1.6 per cent this year to 2.5 per cent in 1997, both rates a fifth of a percentage point less than the IMF pencilled in last May. But Fund economists warned that activity might turn out weaker than expected because governments are cutting their borrowing sharply in an effort to qualify to join the single currency.

Downward pressure on government borrowing has subdued growth in France, although the IMF argued that by boosting financial market confidence the French government's resolve to cut its deficit had allowed a substantial decline in interest rates – both in absolute terms and relative to Germany. Growth in France is forecast to reach 2.4 per cent next year, although the Fund warned that "a comprehensive programme of fiscal and labour market reform is necessary to create a basis for robust non-inflationary growth over the medium term".

In the case of Japan, the Fund argued that the government should aim for a budget surplus in the medium term to prepare for the costs that would arise with the ageing of its population. But the fiscal consolidation should take place gradually to avoid derailing the recovery. The growth forecast for Japan this year has been revised upward substantially since May to 3.5 per cent, but downgraded for 1997 to 2.7 per cent.

The Fund said that Japan would have to raise interest rates at some stage, but that the amount of spare capacity in the economy, the virtual absence of inflation, the wish to avoid too strong a yen and the need to help banks work out non-performing loans all suggested that rates should be kept low for now.

The strength of economic activity in the emerging markets of the developing world is "particularly impressive", the IMF argued. It noted that worries concerning overheating in some Asian economies had been allayed, although "further action may be needed to avoid the emergence of excessive pressures on capacity and to contain external imbalances". Growth in the developing countries as a whole should be little changed between this year and next with stronger expansions in Mexico, Argentina and Africa offsetting the slowdown in Asia.

Since May the IMF has revised up its growth forecast for Africa from 4.5 to 5 per cent, but downgraded its predictions for Latin America, Asia and the Middle East. Latin America is forecast to post 4 per cent growth next year, compared with 3 per cent in 1996. Growth in Asia should decelerate from 8 to 7.5 per cent. Median inflation in the developing world is forecast to fall sharply over the next couple of years before stabilising at around 4 per cent at the turn of the decade.

The Fund said that the best performers in the developing world were those countries where government borrowing had been kept in check and public sector activity was mainly geared towards promoting private sector activity. The least successful were those where budget deficits were exacerbated by support for loss-making public enterprises, where there was extensive government regulation and where inflation was poorly controlled.

Among the transition economies, the Fund predicted a turnaround in economic activity in those economies that had adopted market reforms relatively late. Activity in Russia is forecast to pick up next year, although further reform and greater efficiency in collecting tax revenues will be necessary. Output should stabilise too in Ukraine and Kazakhstan.

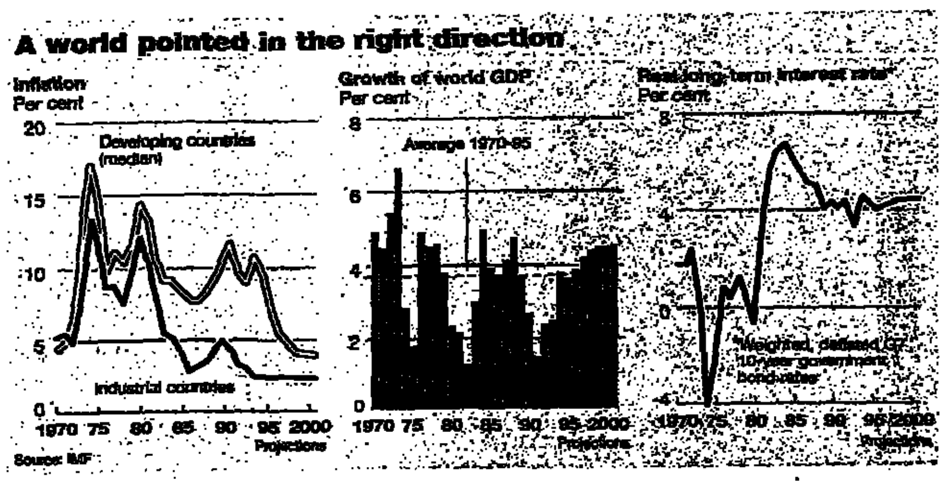
Fund staff believe that the transition economies should be able to sustain growth rates of 4 to 5 per cent a year in the long term. They benefit from a high level and quality of education, although ageing populations and stagnating labour forces mean that it may be difficult to generate the savings necessary to finance investment and thereby boost productivity and living standards.

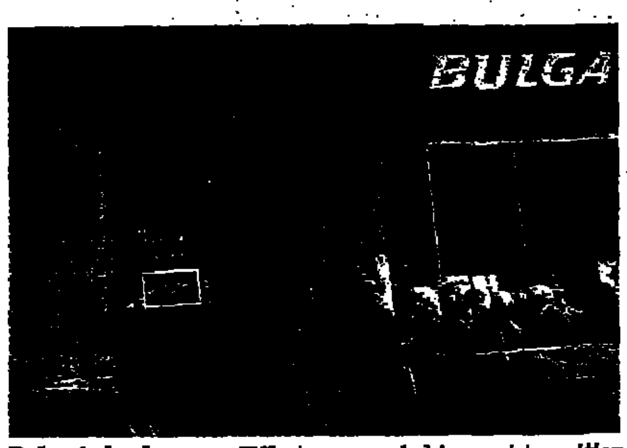
"Major efforts are also needed in most transition countries to put the banking system on a sound footing; this is essential for the mobilisation and effective allocation of domestic saving."

The call for reform of the banking sector also applied to many emerging market economies. "Emerging market countries will need to strengthen prudential supervision to monitor and regulate foreign exchange exposures of domestic financial institutions and to ensure that exchange rate movements associated with volatile capital flows do not exacerbate banking sector weaknesses," the Fund said.

Robert Chote

A world pointed in the right direction





Bulgaria bank queue: 'Efforts are needed in most transition countries to put the banking system on a sound footing'

Only France and Luxembourg on Maastricht course

By Robert Chote, Economics Editor, in Washington

France and Luxembourg are the only countries on course to meet strictly the four economic performance targets set down in the Maastricht treaty for potential participants in a single European currency, the International Monetary Fund said yesterday.

Together with the UK, they are the only two countries expected to have government debts equivalent to 60 per cent or less of national income next year. Germany's debt to gross domestic product ratio is forecast to rise from 60.8 per cent this year to 61.9 per cent in 1997.

However, as it already seems clear that the debt criterion will be interpreted flexibly, attention has focused instead on the requirement that budget deficits next year be no more than 3 per cent of gross domestic product.

The other criteria specify targets for inflation and long-term interest rates. The Fund's latest World Economic Outlook predicts five EU countries – France, Germany, Austria, Belgium and Sweden – will have budget deficits of exactly 3 per cent of GDP next year. Most economists think that France will have difficulty hitting the 3 per cent deficit goal but the Fund believes the target is within reach as long as economic growth strengthens as it expects.

The Netherlands, Denmark, Finland, Ireland and Luxembourg are all expected to meet the target comfortably but the UK will overshoot with a deficit of 3.3 per cent.

The IMF argues that the pace of economic growth will be slowed in Europe by the effort to restrain government borrowing. Mr Flemming Larsen, its deputy chief economist, said that if growth turned out weaker than expected it would be unwise to tighten the fiscal screw further just to meet the Maastricht timetable.

The Outlook argued that, if growth weakened further, governments should allow the "automatic stabilisers" to take effect, meaning that deficits might rise because of weak tax revenues and higher unemployment support payments. But this option was only open to governments which had won the confidence of financial markets by bearing down on "structural" deficits unrelated to the state of the economic cycle.

The Outlook warned that "any significant backsliding from announced consolidation efforts could have severe implications for interest rates and financial market confidence, especially since it might derail the Emu process". Mr Larsen said that it would have been necessary to reduce government borrowing in Europe anyway, even without Maastricht.

Mr Larsen also argued that with fiscal consolidation in train it was necessary to make full use of any room for manoeuvre to cut interest rates in Europe.

Mixed verdict for buy-back facility

By Graham Bowley in London

The use of western official aid to buy back poor countries' commercial debt does not improve their creditworthiness or access to new private-sector finance, a report for the UK's Overseas Development Agency has found.

But commercial debt buy-backs do relieve the burden of debt service costs, it says.

The report, published yesterday by London Economics, the UK business consultancy, is the first to study closely the costs and benefits of buying back the debt owed by poor countries to commercial banks.

The World Bank has had a facility in place since 1989 to help heavily indebted countries buy back commercial debt. Under this system, debtor countries buy back debt from commercial creditors at a deep discount off the debt's face value.

Typically, these cleared more than 75 per cent of a country's outstanding commercial debt arrears at a discount of between 11 and 15 cents in the dollar.

The report focuses on three countries: Uganda and Zambia – which had buy-back operations in 1993 and 1994 – and Tanzania – which is due to have a buy back in coming months. The study includes discussions with government officials, as well as with bankers, credit-risk analysts and officials of the World Bank and the IMF.

It proposes that giving poor countries debt instruments, such as government bonds, as well as cash to buy back commercial debt, would help improve their creditworthiness and keep private bank lines open.

The report's findings run counter to what has been the conventional wisdom in development circles: that using aid to buy back debt helps countries attract new capital.

Instead it found that commercial creditors often used such schemes as an opportunity to free themselves of their ties to poor countries, rather than extend new loans.

It was also believed that most heavily indebted countries did not service many of their commercial bank loans, but opted instead to pay their government and multilateral-institution creditors first.

But the study found that countries had indeed been paying debt-interest costs on their commercial loans because of pressures applied by commercial creditors.

Using official aid to buy back these debts had therefore led, in several cases, to large cash-flow benefits for these countries.

The report concludes that, on balance, the cash-flow benefits are sufficient to make buy backs "an attractive aid project".

It states: "We find that, typically, a commercial debt buy-back has a marginal effect on creditworthiness and does not improve the African private sector's access to international finance."

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New vaccines may save lives of 8m children

By Frances Williams in Geneva

Expensive new vaccines coming on to the market over the next five to 15 years could save the lives of up to 8m children annually but risk being denied to children in poor countries for lack of funds.

In a report published yesterday*, the World Health Organisation and the United Nations Children's Fund said global immunisation programmes had been a remarkable success. Under the expanded programme on immunisation (EPI), 80 per cent of the world's children have been immunised against six common childhood killers, saving 3m lives a year.

Dr Ralph Henderson, assistant WHO director-general, described the programme as "one of the great public health triumphs of our time". Greater achievements were possible, he said.

The crippling disease of polio could be eradicated by the year 2000, eventually saving governments more than $1.5bn a year in immunisation costs. New and better vaccines against diarrhoeal diseases, acute respiratory infections and malaria could save the lives of a further 8m children each year.

The report, the first comprehensive round-up of immunisation programmes and vaccine research, said potential new vaccines are being studied against more than 60 different diseases, including malaria and HIV/Aids.

However, the new generation vaccines, often genetically engineered, are vastly more expensive because of high research and development costs.

Immunising a child with all six original EPI vaccines costs about $1 to which must be added $14 in delivery costs. Experience with the hepatitis B vaccine, the world's first genetically engineered vaccine, suggests each new vaccine will cost several times as much.

New vaccines already on the market, including those against hepatitis B and yellow fever, are still not available in many of the countries that need them.

The report expressed concern new vaccines were being tailored to diseases occurring in rich nations, which may not be suitable for children in developing countries who may suffer from different and more virulent strains of the disease.

**State of the world's vaccines and immunisation. Available from WHO, Global Programme for Vaccines and Immunisation, CH-1211 Geneva 27 or on the Internet at http://www.who.ch/programmes/gpv/gpv_home.htm*

Fears on debt service costs

By Graham Bowley

Some heavily indebted poor countries will pay more debt service costs than at present even after they receive the benefits of debt relief proposals being considered by the World Bank and the International Monetary Fund.

A special report drawn up by the Mozambique ministry of finance suggests that Mozambique, one of the world's most indebted countries, will pay about three times as much in terms of debt service costs in 2004 when it would qualify for the new proposals.

The World Bank and IMF scheme, which is likely to be granted approval in Washington next week, aims to reduce the debt burdens of up to 20 poor countries to sustainable levels.

But the report yesterday prompted leading Third World aid agencies and pressure groups to step up calls for the IMF to do more to relieve poor countries' debt.

Mr Andrew Simms, of Christian Aid in London, said the proposals should be extended to cover more of poor countries' debt and that the period countries must wait for relief should be reduced. He said Mozambique's case highlighted the plight of several of the highly indebted countries which would qualify for the new scheme. "The report shows the plans are too little, too late," he said.

The report shows that Mozambique, which has a debt per capita ratio of about $355, paid annual average debt service costs of about $57m between 1990 and 1995. The report estimates that this will rise to $191m by 2003 but that the costs will only fall to $172.5m by 2004 when the proposed relief is first applied.

The World Bank and IMF scheme has already drawn criticism. Critics say rules determining whether a country is eligible to participate are too restrictive.

Step closer to accounts unity

By Jim Kelly, Accountancy Correspondent

The body working to produce a set of accounting standards for use on the world's leading stock markets yesterday cleared a serious obstacle to the success of the project.

The International Accounting Standards Committee, meeting in Barcelona, voted to set up a standing committee to issue interpretations of standards to help companies and the users of accounts.

Sir Bryan Carsberg, secretary-general of the committee, said the new body would have 11 members and would probably include technical partners for the UK's big six accounting firms, as well as representatives from industry and accounts users. They would not have to be members of the board.

The body will rule on issues of interpretation – a constant need in complex financial reporting. Most national standard setters have their own interpretation bodies.

Interpretations given by the new body will have to be confirmed by the board – an important control for board members – but they will not be able to debate them.

The decision will be seen as significant because it will help allay fears that the project to harmonise accounts on a global basis would be undermined by different national interpretations.

Sir Bryan said the board was moving ahead swiftly with its programme to put together a set of core standards for endorsement by Iosco – the organisation for the world's securities regulators.

The agreement holds out the prospect of big companies being able to use one set of accounts to raise capital across borders.

The meeting had approved a final standard on income tax – one of the most difficult issues it faces.

Beijing buries the hatchet with Bonn

German foreign minister Klaus Kinkel: met Qian Qichen at UN

By Tony Walker in Beijing and Bruce Jacques in Sydney

China has signalled an end to its row with Germany over Tibet by inviting the German president for a state visit and reviving an invitation to the foreign minister.

Beijing angrily withdrew its invitation to Mr Klaus Kinkel, the foreign minister, to visit China in July following passage of a resolution in the German parliament which accused the Chinese of seeking to obliterate Tibet's cultural identity.

Mr Qian Qichen, China's foreign minister, renewed the invitation to Mr Kinkel at a meeting this week at the UN General Assembly in New York. "The Chinese side expressed welcome to German President Roman Herzog to visit China . . . and welcomed Foreign Minister Kinkel to visit China beforehand," the official Xinhua news agency reported.

But Beijing continued its strong criticism of Australia over the proposed meeting in Sydney today between Mr John Howard, the Australian prime minister, and the Dalai Lama, Tibet's exiled spiritual leader. China has threatened trade retaliation against Australia, but Australian officials rejected these threats. Mr Howard said China had "created a problem out of nothing" and there was no reason the meeting should affect relationships between the countries.

Beijing is engaged in a remorseless diplomatic campaign aimed at isolating the Dalai Lama internationally and countering demand for Tibetan independence but it appears anxious not to allow the issue to sour relations on too many fronts.

Western diplomats in Beijing said it was probably more than coincidental that China officially put an end to its disagreement with Germany over Tibet just as it was engaged in an argument with Australia on the same issue.

Mr Shen Guofang, China's foreign ministry spokesman, repeated strong criticism of Australia at a news briefing on Tuesday, saying the proposed meeting between the Dalai Lama and Mr Howard constituted interference in China's internal affairs.

The Sino-German row over Tibet threatened an extensive trading partnership, but the two sides moved fairly quickly to stop the argument harming the relationship. A Chinese official said at the time that as long as Germany took "concrete and effective" measures to make amends, relations would not be allowed to deteriorate further.

Germany is China's biggest European trading partner with bilateral trade last year of DM27bn ($18bn). At the end of 1995, Germany ranked ninth among investors in China having invested $1.2bn and pledged $4.4bn.

Xinhua reported that at their New York meeting Mr Qian and Mr Kinkel had agreed to make every effort to expand Sino-German relations in spite of differences over human rights.

ASIA-PACIFIC NEWS DIGEST

US airman in Japan quizzed

A US airman stationed at Kadena Air Base in Okinawa, southern Japan, is being questioned over a complaint by a Japanese woman that she was raped in the base compound, US air force officials said yesterday. A hearing today will determine whether the allegation should be referred to a court martial or if some other form of action should be taken.

Earlier this year, three US servicemen were jailed for abducting and raping an Okinawan girl in September 1995. That case led to a public outcry against the concentration of US bases in Okinawa.

However, Mr Masahide Ota, Okinawa's governor, renewed the leases earlier this month after Prime Minister Ryutaro Hashimoto pledged to shrink the bases and set up a Y5bn ($45.5m) fund for the economic development of Okinawa Prefecture. *Reuter, Tokyo*

Ex-judge eyes top HK post

A possible new candidate for Hong Kong's top post in the post-colonial government emerged yesterday when Mr Arthur Garcia, a former High Court judge, told government radio he was considering running for the leadership. His statement comes a week after Mr Tung Chee-hwa, the shipping tycoon considered by many to be the frontrunner in the leadership contest, said he was gearing up to enter the race. Mr Garcia, is now a member of the Preparatory Committee, a China-appointed body working on the transition. In addition to Mr Tung, there are two other candidates. Sir Ti Liang Yang, chief justice until he resigned this month, and Mr Lo Tak-shin, a solicitor and a former member of the Hong Kong administration. *Louise Lucas, Hong Kong*

Chinese eating more protein

Chinese are eating more protein, with a much improved breakfast . . . and are getting bigger because of a better diet, according to a survey published by the official Xinhua news agency. Chinese six-year-old children are now on average 4.8 cm taller than six-year-olds in 1982. Breakfasts are at the forefront of the eating revolution, the report said, with steam buns and simple porridge making way for milk, bread, cakes and eggs.

Big improvements in Chinese dietary habits have clear implications for exporters of food to China. The Chinese appetite for dairy products and other forms of protein is growing rapidly, benefiting exporting countries such as Australia and New Zealand. *Tony Walker, Beijing*

Singapore Internet fine

A Singapore man has been fined S$61,000 (US$43,000) for downloading sex films from the Internet, the first such case in a country embarking on censoring the net, the Straits Times said yesterday. The newspaper said Lai Chee Chuan was fined S$1,000 each for 61 obscene films he said he had downloaded from the Internet for his own use.

The report quoted police as saying the raid followed a tip-off from Interpol that it was investigating a group of people exchanging pornography on the Internet and a Singapore site had been identified.

Singapore has been regulating Internet access since September 15 by obliging access providers to install special "proxy" computers which can be used to block specific sites. *Reuter, Singapore*

Tokyo agrees finance ministry reform

By Gerard Baker in Tokyo

Japan's all-powerful finance ministry could be about to lose one of its principal functions, if a plan approved by the coalition government is enacted in the course of the next year.

The three coalition parties have agreed on a basic structure for transferring the financial supervisory role of the ministry to a separate agency, officials said yesterday. But it is still far from clear how genuinely independent of the ministry the new body will prove to be.

According to the proposal, the agency would take over the role of financial system inspection, traditionally one of the finance ministry's core functions. It would have responsibility for day-to-day supervision of banks and other financial institutions and be empowered to require them to take action to improve various aspects of their financial performance.

But the ministry itself would continue to determine the overall framework of policy with regard to banks and many of the new agency's recommendations would almost certainly be subject to approval by the finance ministry. In practice that is likely to mean the ministry would continue to set the guidelines for the operation of financial markets. It is this guiding role of the ministry that is held by many of its opponents to have been responsible for the series of financial disasters of the last five years.

The proposal will form an important element of the coalition parties' platform in the general election, expected within the next few weeks. It is the outcome of rancorous negotiations between the coalition members over the past six months.

Public anger at a string of financial calamities, including a succession of banking collapses under mountains of bad loans and widespread evidence of corruption and mismanagement at a range of financial institutions, forced the cabinet to consider proposals for cutting the ministry down to size.

The Liberal Democrats led by Mr Ryutaro Hashimoto, the prime minister, who form the largest party and have traditionally enjoyed close links with finance ministry bureaucrats, were initially reluctant to countenance any measure that would reduce the ministry's power.

● The Bank of Japan and 176 private financial institutions agreed yesterday to provide money for a new fund aimed at spreading the cost of liquidating the country's collapsed housing loan companies. The aim of the stabilisation fund is to generate profits in order to offset some of the Y685bn ($6.2bn) in taxpayers' money the government has approved towards the liquidation.

The initial plan to spend public funds was so unpopular that the government was forced to back down and come up with ways of increasing the burden of the private sector towards the bailout. This proposal is the official response to that opposition.

The new fund will manage a total of Y900bn, Y100bn subscribed by the central bank and the rest by private institutions, which include banks and agricultural co-operatives that lent heavily to the housing lenders, or *jusen*.

Spy row further sours S Korea-US ties

By John Burton in Seoul and Jurek Martin in Washington

A spy row yesterday threatened further to strain ties between the US and Seoul as the two countries appeared to disagree over the appropriate response to the recent intrusion of a North Korean submarine into South Korean waters.

Mr Robert Kim, a 56-year-old computer specialist at the US Office of Naval Intelligence who was born in Korea but became a US citizen in 1974, was arrested at a reception in Washington on Tuesday and yesterday charged with passing on classified information to a South Korean agent.

The indictment charged that he copied and passed more than two dozen classified documents to a Korean naval attache in Washington between March and September this year. They covered "military, political and intelligence matters in the Asia-Pacific region".

The FBI said it appeared Mr Kim had volunteered to spy for South Korea, according to a letter to the attache and dated in January which it found in his house. His work computer appeared to have been placed under electronic surveillance as long ago as last May, which may suggest that the documents were not hyper-sensitive.

Still, the arrest is likely to embarrass South Korea as it presses the US to adopt a tough stance against North Korea in response to the submarine incursion.

Although it has condemned the submarine incident, the US has favoured a cautious reaction to avoid endangering a 1994 agreement with North Korea, under which Pyongyang promised to abandon its suspected nuclear weapons programme.

The US has reacted coolly to a demand by Seoul's defence ministry that the two countries resume the annual Team Spirit war games, which Washington promised North Korea to suspend as part of the nuclear freeze agreement.

Mr Warren Christopher, the US Secretary of State, said the implementation of the North Korean nuclear agreement should continue despite the submarine incursion because it serves the interests of all countries in the north-east Asian region.

The US Defence Department said it did not anticipate a decision on resuming Team Spirit "in the near term." The revival of Team Spirit would be based on the needs of the US and South Korea military and security requirements on the Korean peninsula, it explained.

Sharif steps up pressure on Bhutto

By Farhan Bokhari and Mark Nicholson in Lahore

Pakistan's president and the leader of the opposition have unexpectedly agreed to meet today for the first time during the present three-year-old parliament, in a move likely to increase political pressure on Ms. Benazir Bhutto, the prime minister.

The move comes while Ms Bhutto is still in mourning after the shooting last Friday of her estranged brother, Murtaza, in Karachi.

The meeting between Mr Farooq Leghari, the president, and Mr Nawaz Sharif, leader of the Pakistan Moslem League, follows two interventions by Mr Leghari since the killing. Both of these have been welcomed by the opposition.

On Saturday Mr Leghari formally approached the country's highest court, the Supreme Court, seeking a review of his powers to appoint senior judges – an issue on which he has differed with Ms Bhutto who has been seeking final say in such appointments.

Then in a widely publicised letter to members of Pakistan's parliament on Monday, the president urged legislators to agree on tougher measures for curbing corruption.

Both moves indicate increasing differences between the president and the prime minister who come from the same party, the Pakistan People's party (PPP).

The last time that an opposition leader met the president during a period of such political tension was in April 1993 when Ms Bhutto, then leader of the opposition, held talks with the then-president, Mr Ghulam Ishaque Khan.

On that occasion Ms Bhutto delivered resignations of all her MPs from the parliament to strengthen the hand of the president who later on the same day sacked Mr Sharif as prime minister.

While opposition politicians yesterday welcomed the president's latest intervention they were cautious in suggesting that today's meeting could presage the immediate downfall of Ms Bhutto's beleaguered government. Mr Shehbaz Sharif, the opposition leader's brother and political adviser, said: "Finally, he has realised things have reached a stage where he should act. On two issues, he has met our demands".

In addition to its political problems, the Bhutto government faces growing financial difficulties because of the suspension of tranches of a $600m IMF loan.

Ms Bhutto is due to leave for the US on Sunday. During the trip she is expected to seek payments from the standby facility, although her government does not currently meet the Fund's conditions for the loan.

Officials in Islamabad said Ms Bhutto planned to go ahead with the trip.

The rise and rapid demise of Megawati

Indonesia's former opposition leader has been roundly removed, writes Manuela Saragosa

Less than two months ago she appeared on the brink of mounting the most serious challenge ever to President Suharto's 30-year authoritarian rule of Indonesia. Today Ms Megawati Sukarnoputri's closest allies are admitting that if she is ever again to be a force in Indonesian politics, it is unlikely to be while Mr Suharto is in power.

This could explain why the daughter of the widely revered founding president of the country is unlikely even to appear at the Jakarata court hearing today in which she is claiming that her removal as Indonesia's equivalent of leader of the opposition was illegal.

With characteristic thoroughness Mr Suharto has ensured that Ms Megawati's emergence as a focus of Indonesia political discontent has been abruptly ended: in June she was replaced as leader of the officially-sanctioned opposition Indonesian Democratic Party (PDI); riots that followed were sharply put down and scores of her supporters detained; with the loss of her place in the PDI has gone her right to defend her seat in parliamentary elections next year and the legal political platform necessary to challenge Mr Suharto or his successor for president in 1998; and now the authorities have threatened to close down her "alternative" PDI offices in Jakarta – apparently without fear of rioting this time.

"Realistically, 1997 and 1998 are lost years for Megawati," says one of her advisers.

Even her supporters admit they do not expect to see mass support on the streets for her again. The government, which has declared Ms Megawati's political activities illegal since her removal as PDI leader, has threatened forcibly to close down her "alternative" PDI offices in south Jakarta. When the police evicted her supporters from PDI headquarters in July, riots broke out.

Megawati: lost her legal platform and confrontation is not her style

Suharto: characteristically comprehensive in dealing with his opponents

It has at least something to do with Ms Megawati's reluctance to engage in confrontation with the government but a great deal with fear. The 27-year-old leader of a small party accused of masterminding the July riots is being charged with subversion, a crime punishable by death in Indonesia. Other political activists have been questioned, harassed and arrested. More than 100 people are in custody in connection with the riots.

Mr Marsillam Simanjuntak, a political observer at Forum Demokrasi, a loosely-knit organisation of Indonesian intellectuals, says that for Ms Megawati to maintain her political momentum she needs the support of both the Islamic community – Indonesia's population is 90 per cent Moslem – and the military, which claims a role in politics.

Neither have been particularly forthcoming. Mr Abdurrahman Wahid, leader of the Nahdlatul Ulama, Indonesia's largest Moslem organisation which claims more than 30m members, has always claimed to be Ms Megawati's spiritual adviser but has never explicitly backed her politically.

The top echelons of the military, meanwhile, have made their support for President Suharto quite clear.

"If Megawati is contemplating to continue to be an opposition leader then the only avenue left for her is extra-parliamentary or extra-constitutional action," says Mr Marsillam.

Ms Megawati's advisers are quick to point out that that type of confrontation is not her style. "She doesn't want to force change," says Mr Kwik Kian Gie, a supporter and adviser to Ms Megawati.

Mr Kwik says the former PDI leader has no political plans for the near future and that she and her supporters will concentrate on pursuing their case against the government through the courts. At today's hearing Ms Megawati's lawyers will detail their accusation that the government backed a congress which illegally replaced her as the PDI's leader.

For the time being, Mr Suharto appears to have achieved his goal of removing Ms Megawati from the political equation and quashed any potential for real opposition.

Nevertheless, Ms Megawati's supporters reject the notion that she has submitted to the government, arguing that she is waiting to make a comeback at the right moment probably when Mr Suharto is no longer president. They admit, however, that it will be a long wait.

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US unveils index-linked bond issue

By Jurek Martin in Washington

President Bill Clinton yesterday announced the details of an index-linked government bond issue designed to appeal to middle class investors.

He did so during a campaign swing through Pittsburgh, Pennsylvania, in the latest in a long line of policy announcements intended to undercut the arguments of Mr Bob Dole, his Republican opponent.

The US Treasury has not previously issued inflation-linked notes and the president hopes they will be attractive to those in the middle class saving for retirement or the educational needs of their children. In an earlier speech, Mr Clinton called them "a solid rock on which families can build."

According to details released by the White House prior to Mr Clinton's speech, the new 10-year "inflation protection" US Treasury securities will first go on sale next January and every quarter after that. The minimum investment is set at a low $1,000.

Last year the Treasury sold $55bn worth of regular 10-year notes. Officials said nothing like as much of the new index-linked issues would be offered, but that the amount would still run into "the billions of dollars".

Interest rates on the bonds will be lower than commanded by the regular 10-year issues, but, the administration contends, will be equally attractive because of their guard against inflation.

Mr Clinton was also expected to announce inflation protection for another series of US savings bonds due to be offered in 1998. These would be available for as little as $50 and are tax-deferred until redemption.

Mr Robert Rubin, the Treasury secretary, has been an ardent advocate of index-linked government bonds and first announced outlines of the new issues last spring. But, in an interview in today's Financial Times, he does not claim they can in themselves remedy the problem of the chronically low US savings rate.

They are typical of the targeted approach Mr Clinton has been taking to economic policy problems during the campaign, not least his preference for selective tax cuts over Mr Dole's across-the-board reductions.

Mr Dole has been hard pushed to counter with specific policy proposals of his own.

Rubin interview, Page 11

Dole faces Ohio roadblock

The 'average' state is in upbeat mood, says Patti Waldmeir

US ELECTIONS November 5

Ohio is famous for being average. Market researchers use it to discover the average in American taste. Pollsters journey to this boastfully normal Midwestern state to find the political mean. Since the turn of the century, Ohio has sat stolidly at the centre of the American political spectrum and refused to budge. No Republican has ever won the presidency without it. The state has chosen the winning presidential candidate in 22 of the last 24 elections.

And as Ohio mirrors the national politics, so it reflects the national mood: suddenly, inexplicably, more cheerful. After months sunk in economic angst, American public opinion has undergone one of its periodic mood swings.

Nearly three-quarters of Americans now report feeling "economically secure"; two-thirds say they are better off now than in 1992; and though only 27 per cent said America was "on the right track" in June, that figure has now risen mysteriously to 40 per cent, according to a Washington Post/ABC poll.

All of this is terrible news for Mr Bob Dole, the Republican candidate, who has run largely on an anxiety ticket. "The number one problem is the economy. It's too good!" says Mr Bob Taft, Ohio's secretary of state and heir to the Republican political dynasty established by great-grandfather William Howard Taft, a former US president. Ohio unemployment is below 5 per cent, business is short of labour, inflation is the lowest in 30 years, and growth is booming. Mr Dole's promise of a growth-boosting, 15 per cent income tax cut fails to resonate in such a state, which prides itself on having escaped from the rustbelt doldrums. "What's it supposed to fix? There's no crisis," says Mr Taft.

That leaves Mr Dole facing, in Ohio, a hefty Midwestern roadblock en route to the White House. He trails President Bill Clinton by 9 to 14 percentage points in the state, one of those in the Midwest which traditionally hold the balance of power in presidential elections (Mr Clinton won Ohio by less than 2 points in 1992, when Mr Ross Perot took 21 per cent of the vote). Among "swing voters" – the 20 per cent who identify with neither party, and who decide the victor – a large majority favours the Democrat. Even Ohio Republicans are not solidly behind Mr Dole: a substantial number plan to vote for the Democratic candidate. Here as throughout the nation, the conventional wisdom is that Mr Dole cannot win the election – unless President Clinton manages, through some unforeseen bad luck, to lose it.

That has less to do with the facts of economic growth, than with perceptions. Until recently, growth was strong but voters simply refused to believe it. President Clinton's claims of economic achievement fell largely on deaf ears.

Whatever the reasons for the delay, economic perceptions have closed the gap with reality at exactly the moment most propitious for Mr Clinton. In Ohio, that gives the incumbent a formidable advantage – even among voters who harbour serious doubts about his character. "It's not that people are happy about the economy, and therefore voting for Bill Clinton. It's that they're happy about the economy, and so they're not listening to Bob Dole," says Mr John Green, head of the Bliss Institute of Applied Politics in Akron, Ohio.

That has left Mr Dole struggling to consolidate his support even in traditional Republican areas. So while President Clinton has campaigned in the opposition heartland with impunity – his recent train journey cut a swathe through conservative areas of rural Ohio – Mr Dole has stuck to the safety of Republican suburbs and small towns.

Mr Dole has spent more time in Ohio than almost anywhere in America, but his campaign there is in disarray. His state campaign chairman, the hugely popular Republican governor George Voinovich, has missed several recent appearances with the candidate. The best that Mr Taft can say is that the state's Republican Congressmen, who are also up for re-election, "are not yet running away from Bob Dole" – though they might do so, if they believe he will lose.

At the moment, paradoxically, those congressional Republicans are running on the coat tails of the President, rather than those of Mr Dole: as incumbents, they too gain credit for the strong economy. The Republican-dominated congress made itself as unpopular in Ohio as elsewhere, by shutting down government and attacking popular programmes like Medicare. But in a year when the economy favours incumbents, the party may not lose more than a seat or two in Ohio.

For the anger that drove the Republican party to victory in the 1994 midterm elections is absent this year. "You need *passion* in politics," says a despondent Mr Bob Bennett, the Ohio Republican party chairman. "I keep looking for the passion." Ohians are just as worried about the long-term future as they were in 1994, he says. But on the assembly line in Toledo, Ohio, Mr Ron Lee can explain why that does not translate into votes: "People don't tend to worry much about the future when they're working all the overtime they can stand!" he says. "Clinton's got more people working."

AMERICAN NEWS DIGEST

Further cuts in Amtrak services

The dwindling US passenger train network will shrink still further in November following a decision yesterday by Amtrak, the national passenger train operator, to approve swingeing cuts to services.

The loss-making corporation, owned by the federal government, said the actions would narrow its projected budget shortfall from $243m to $30m for the fiscal year beginning on October 1.

Although private sector freight railroads are doing well in the US, passenger trains play a negligible role in inter-city transport and Amtrak has few supporters in Congress. Less than two years ago, under pressure to eliminate a looming $200m budget shortfall, the corporation cut passenger services by 20 per cent and eliminated 2,000 employees from its workforce of 24,000.

Yesterday's cuts will eliminate all passenger train services between Denver, Colorado and Portland, Oregon; between Denver and Los Angeles; between St Louis, Missouri, and San Antonio, Texas; and between Albany, New York, and Boston, Massachusetts. Some 42 stations will lose Amtrak service. However, some routes reduced to less-than-daily service in the last round of cuts will have daily service restored. *Richard Tomkins, New York*

Plea for decimalisation

Mr Steven Wallman, a commissioner at the Securities and Exchange Commission, yesterday called for US equity markets to trade in "plain numbers" – or dollars and cents – instead of fractions, claiming that the shift to decimalisation would result in lower dealing costs for investors. Speaking at a conference at the Pace University Center for the Study of Equity Markets, he argued that a more flexible pricing structure would force market makers to compete more effectively, reducing the quoted spread between buy and sell prices. Currently, the smallest gap possible is one eighth, or 12.5 cents.

He said the technological shift could easily be accomplished by 1999, when firms deal with the "millennium problem" – the fact that computer systems will not be able to recognise years after 1999. The securities industry is resisting decimalisation, fearing the reduction in spreads Mr Wallman seeks, and warning that it could reduce liquidity. Mr Wallman was speaking in a personal capacity and the SEC favours voluntary decimalisation, but he suggested that if the industry failed to act, the authorities should act to impose the change. *Tracy Corrigan, New York*

Menem attacks strike plan

A 36-hour general strike beginning today will cost Argentina $1.7bn in lost production, according to President Carlos Menem, who said intimidation from unions would not dissuade him from deepening the current economic reforms. "We will show that it is the elected leader of this country who is in control," he said. The cost of the strike, added to that of a highly successful 24-hour stoppage last month, would represent nearly 1 per cent of gross domestic product, Mr Menem said.

Argentine authorities will today draft in extra security forces to the federal capital of Buenos Aires to contain what is expected to be a big march on the central Plaza de Mayo. Union leaders said they expected at least 50,000 to march to the square. Unions are angered at proposals to "modernise" current labour legislation in an effort to bring down record unemployment of 17.1 per cent. *David Pilling, Buenos Aires*

Ortiz plans public investment boost for Mexico

By Stephen Fidler and Leslie Crawford in Mexico City

Mr Guillermo Ortiz, Mexico's finance minister, says he plans to run a small budget deficit in 1997 to allow for more spending on public works and to speed the economic growth rate to above 4 per cent next year.

Mr Ortiz said in an interview that the 1997 budget – which must be presented to congress before November 15 – envisaged public investment increasing by 10 per cent in real terms next year to pay for an important expansion in state oil refineries, and the building of power plants and toll roads.

He forecast that real wages would begin to recover in 1997, after losing almost one-fifth of their purchasing power since the devaluation of the peso in December 1994. Inflation would fall to around 15 to 16 per cent next year, from an annualised rate of 30 per cent at present.

He also expects tax revenues to recover from their catastrophic fall during the country's economic crisis. Tax receipts have fallen by almost two percentage points of gross domestic product – about $5bn – since 1994.

The investment revival, following two years of austerity, would lead to a small budget deficit "of around 0.5 per cent of gross domestic product", Mr Ortiz said.

The budget deficit will also be the result of social security reforms which come into force in 1997. Mexico will move away from a state-run pension system to one in which workers will hold individual retirement accounts managed by private-sector fund administrators. This will mean that the state will cease receiving the contributions which workers now pay into the state system but will have to continue paying out for existing pensioners. Mr Ortiz estimated the cost of paying for the state pensions of these in retired Mexicans, as well as some reforms to the state health system, at 1.2 per cent of GDP next year.

Faster economic growth would increase demand for imports and open a current account deficit which should not exceed 2 per cent of GDP, the minister said.

Mr Ortiz said he expected to end 1996 with "a sizeable budget surplus" due to windfall profits from oil exports and cuts in expenditure. As a result, he said he would make a "substantial contribution" towards writing off part of the bad loan portfolio which was removed from the balance sheets of Mexican banks during last year's financial crisis.

Tokyo acts to defuse insurance row

By Michiyo Nakamoto in Tokyo

Tokyo yesterday moved to avert a collision with the US in a dispute over Japan's insurance market, the world's second largest.

Mr Wataru Kubo, finance minister, said he had decided to delay beyond the scheduled date of October 1 the entry of Japanese insurers into the so-called "third sector", a lucrative niche for foreign insurers in Japan.

The third sector includes cancer, nursing care, personal accident and other products that fall in between life and non-life insurance products and represents just 5 per cent of the Japanese market.

The dispute centres on differing interpretations of a 1994 bilateral insurance accord in which it was agreed that "radical change" in the third sector should be avoided until the primary sectors of life and non-life insurance were deregulated.

The decision to postpone the entry of Japanese companies into the sector follows US warnings itwould "take appropriate action" if Japanese entry into the sector went ahead.

Last April, in the first major reform of Japanese insurance law in 50 years, the government made it possible for Japanese insurers to enter the third sector through their subsidiaries.

The US claims this was in breach of a bilateral insurance agreement which called for avoiding "radical change" in the third sector until the primary sectors of life and non-life insurance were deregulated and foreign insurance providers had been given a reasonable period to compete in those markets.

"To have no restrictions on the subsidiaries' sales of personal accident insurance is radical change," said a US official.

The Japanese government is arguing that significant deregulation of the primary sectors has been implemented and that the entry of the subsidiaries of life and non-life insurers into the third sector does not constitute "radical change".

Mr Kubo told Mr Walter Mondale, the US ambassador, this week that he wanted to discuss the insurance issue with Ms Charlene Barshefsky, acting US trade representative, when he visits Washington later this month. The Japanese are also anxious to minimise friction at the "Quad" trade talks in Seattle today.

Guy de Jonquières and Nancy Dunne on a bitter US-EU dispute

Communication gap in IT talks

When the US and EU agreed late last year to seek a global free trade deal for information technology products, they hailed the initiative as a boost to transatlantic harmony. But since then, it has dissolved into bitter squabbling, further straining a relationship it was supposed to help repair.

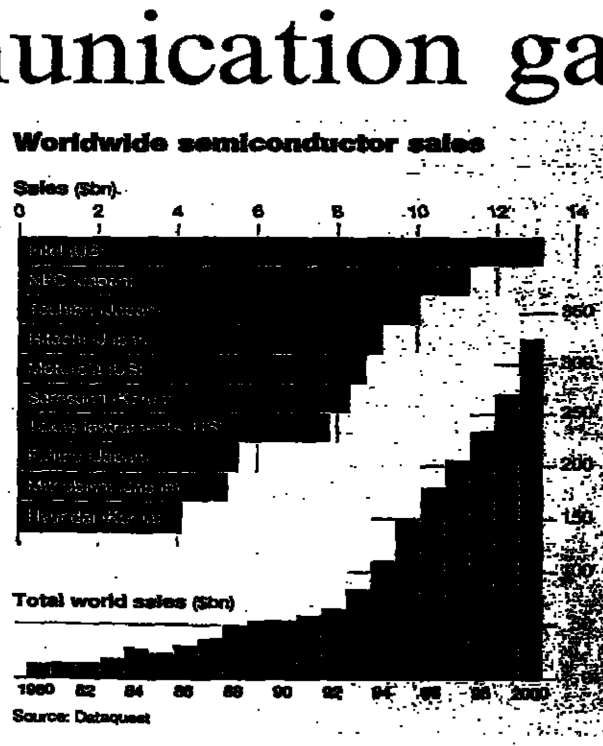
Today, trade ministers of the "Quad" powers – the US, EU, Japan and Canada – will try to break the deadlock at a meeting in Seattle, in the hope of securing an IT agreement in time for the World Trade Organisation's ministerial meeting in December.

Companies on both sides of the Atlantic are pressing for a deal which would promote the global information industry by removing tariffs on a wide range of components and equipment.

However, the EU has blocked negotiations since the spring, insisting Europe's chipmakers first be admitted to a semiconductor alliance between the US and Japan. Brussels says the scheme, intended to foster industry co-operation, is discriminatory.

This week, Sir Leon Brittan, Europe's trade commissioner, backed down. He says he is now ready to settle for guarantees that US and Japanese chipmakers will not exploit their alliance at Europe's expense while IT negotiations are under way.

Worldwide semiconductor sales



Source: Dataquest

Sir Leon's move apparently acknowledges that his efforts to use the IT talks as a lever to get Europe accepted as an equal partner in the US-Japan arrangement have so far failed.

The EU also seemed to be retreating from another demand which has complicated the IT talks. This is that EU trade partners should offer concessions on other products to "compensate" it for scrapping its chip tariffs, the highest in the industrialised world.

As well as irritating the US, Brussels is under growing pressure from Europe's electronics industry to shift its stance. Mr Bruno Lamborghini, head of Eurobit, an industry group, said this week trade politics should not obstruct liberalisation.

Mr Lamborghini, who also chairs the Transatlantic Business Dialogue, set up by the US and EU last year, opposes "compensatory" tariff cuts as part of an IT deal. He made clear that the European industry does not share Sir Leon's opposition to US and Japanese demands that the EU agree to phase out its chip tariffs before it can join their alliance.

Whether Sir Leon's compromise offer will be enough to unblock the log-jam is unclear. Washington has responded cautiously, saying it was still unsure of Brussels' resolve. The US says it has made much more progress in talks on the planned IT agreement with Asian countries, such as Korea and Taiwan.

US officials dismiss Brussels' claims that it is out to ensure maximum liberalisation. They suspect its tactics reflect political differences between its members, and question whether the EU can deliver on any IT deal.

Officials in Brussels admit it may not be easy to sell to governments an agreement that would open the EU's market further, when the value of its IT imports is twice that of exports.

However, they question whether Washington is ready to bargain seriously. They say its stance is dictated by US electronics industry hardliners and accuse it of refusing to liberalise certain IT products, including photo-copiers and some telecommunications equipment.

EU officials also say any tariff cuts could be undermined by the US-Japan semiconductor alliance. They say US producers want to keep their European competitors out of the arrangement so they can continue to hog foreign chip sales in Japan.

However, Sir Leon has described the alliance as "largely toothless". Unlike the five-year bilateral agreement it replaced last summer, it mainly involves private sector co-operation and contains no government-set targets for chip sales.

Furthermore, Sir Leon has repeatedly criticised government involvement in the chip industry and assailed the US-Japan arrangement as anti-competitive. Yet he has also flexed much political muscle – with little success – to try to get European companies into the alliance.

Critics say these apparent contradictions suggest that the EU is more interested in playing power politics than in opening markets. They also question why the EU is refusing to agree to abolish its chip tariffs as a condition for entering the US-Japan alliance, when such a commitment would almost certainly be required by a multilateral IT agreement.

The answer, EU officials say, is that they want to maximise their bargaining leverage when the IT negotiations start. But many in the electronics industry, in Europe as well as in the US, wonder how far such tactics are intended to benefit business – and how far to serve the interests of bureaucrats in Brussels.

BA may face curbs on link-up

By Michael Skapinker, Aerospace Correspondent

The UK Office of Fair Trading is believed to be preparing to recommend that conditions be attached to the proposed alliance between British Airways and American Airlines.

BA says if any conditions are too onerous it will walk away from the planned tie-up. Competitors think BA might resume talks with KLM of the Netherlands.

Among conditions the OFT is thought to be considering are that BA and American surrender some of their landing and take-off slots at London's Heathrow airport and that they reduce the frequency of some transatlantic flights.

Virgin Atlantic of the UK and American's large US competitors say the alliance will be anti-competitive as it will control over 60 per cent of UK-US flights.

There are three options open to the OFT. It can recommend to Mr Ian Lang, UK trade and industry secretary, the alliance be allowed to go ahead without any restrictions. It could recommend that the deal be referred to the Monopolies and Mergers Commission, though airlines believe that if the OFT were going to recommend a referral it would have done so by now.

The third possible recommendation – that Mr Lang impose conditions on the alliance – is considered more likely. Mr Lang is expected to make an announcement within weeks. A long period of negotiation between the OFT and BA over the precise conditions might then follow.

The deal is also being investigated by the European Commission and the US Department of Justice. The UK government is keeping the EU informed on the OFT's progress in the hope of ensuring Brussels reaches a similar conclusion.

WORLD TRADE NEWS DIGEST

Taipei pressed on pricing

The US is pressing Taiwan to settle a dispute over pricing of imported medical instruments by threatening to list it as an "unfair trader" by September 30. The move would allow a further year for negotiations but, if no settlement were then reached, the US could impose trade sanctions on Taiwan under section Super-301 of its trade law.

Taiwan's board of foreign trade yesterday said Taiwan would send trade negotiators to Washington "as soon as possible" to explain the pricing policies of the government's national health insurance bureau.

Taiwan's medical equipment market is $650m per year, of which nearly 90 per cent is imported. An estimated one-third of imports are bought from US manufacturers. The US Health Industry Manufacturers Association has complained that the bureau, established one and a half years ago, maintains a pricing policy on reimbursements to hospitals and other health facilities which discriminates against US manufacturers.

The bureau does not regard the reimbursements as government procurement but US suppliers maintain that because the ultimate buyer is the national health insurance bureau medical equipment purchases should be treated as government procurement. *Laura Tyson, Taipei*

Perkins reorganises in US

Perkins, one of the world's biggest diesel engines companies, is setting up its own distribution business in North America, ending an eight-year alliance with Detroit Diesel, a US engines company partly owned by Mercedes-Benz. The decision will give Perkins greater freedom to expand its $100m-a-year sales in the region without possible conflicts of interest with Detroit Diesel.

Perkins, based in the UK, is owned by LucasVarity, the Anglo-American automotive components group formed this summer by Lucas Industries of the UK and Varity of the US. *Peter Marsh, London*

UK strengthens Filipino ties

The formation of a Philippine-British Business Council was announced in Manila yesterday by Lord Fraser, British minister of state for trade and industry. He said he hoped the council, which would improve contacts between businessmen, would raise the level of trade and investments between the UK and the Philippines.

Preliminary statistics from the Philippine central bank for January to April show Britain as the second leading investor in the Philippines. *Reuter, Manila*

Bonn moves on procurement

The German cabinet agreed yesterday that public procurement decisions could be challenged in court, so lifting a threat of sanctions against German companies in the US. The decision followed pressure from the European Commission and the US to increase the transparency of procedures covering contracts awarded by federal, state and local authorities and worth about DM400bn ($266.7bn) a year. Companies complained they had no access to the courts to find a settlement.

The US identified Germany in April as failing to comply with the World Trade Organisation's government procurement agreement. It set a September 30 deadline after which German companies might find themselves excluded from US public contracts. *Peter Norman, Bonn*

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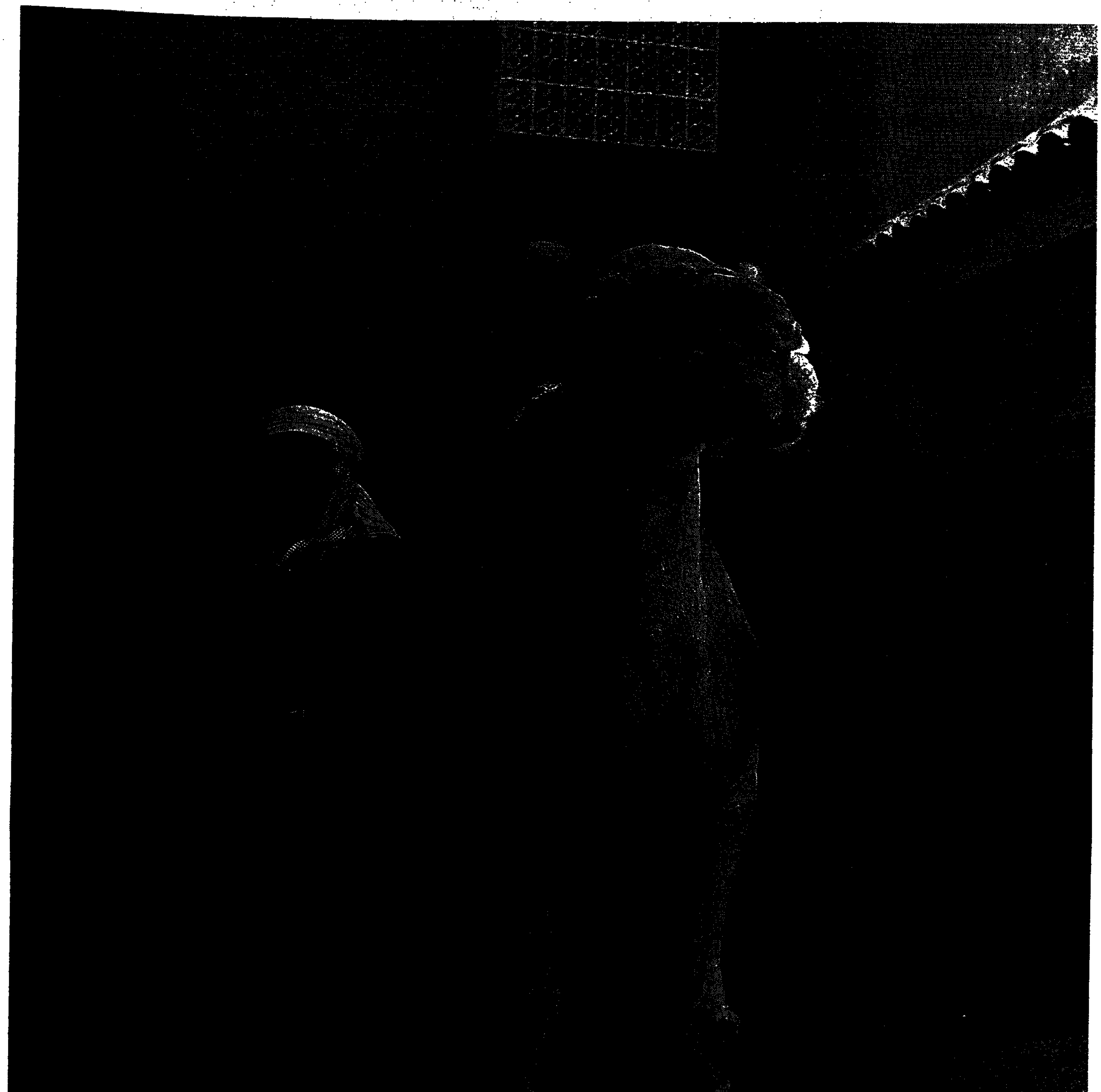

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Director of Serious Fraud Office questions capability of jury system

Trial verdicts 'emasculate justice'

By Norma Cohen in London

Britain's criminal justice system has been "emasculated" by recent judicial decisions in complex fraud trials, and it is time to consider alternatives, Mr George Staple, director of the Serious Fraud Office, said yesterday.

Mr Staple's remarks, made at a conference on combating financial crime, are his harshest public criticism to date of the way in which complex fraud cases are decided. They increase the pressure on government for legislative changes to the trial-by-jury system currently afforded those accused of fraud. The comments follow the decision of a High Court judge last week not to proceed with the second trial of Mr Kevin Maxwell after his January acquittal of charges of pension fund fraud.

The judge said that once one set of charges against a defendant had been dismissed, it should be "unusual" for a second trial to take place. Mr Staple said the decision to split the charges against Mr Maxwell stemmed from an earlier Appeals Court ruling in the Blue Arrow case, encouraging the SFO in the "robust and early use" of its powers to split indictments into separate proceedings, each of which could be easily understood by a jury.

"So the position now is that in the most complex fraud cases the indictment, already reduced to the bare minimum as directed in Blue Arrow, will be split up to produce a series of manageable trials. But it is very unlikely that a second trial will ever take place," Mr Staple said. "That means the full criminality is unlikely to ever come before a court, nor will all the defendants."

Mr Staple said he was not calling for jury trials in all fraud cases to be scrapped. But in complex cases involving several defendants, it was unclear whether it would be possible to present all the charges succinctly to a jury and hope for a fair verdict. Was it "reasonable to ask an ordinary jury to sit for as long as it inevitably takes in the most complex cases to hear the entire case . . ."

The UK Bar Association said the question of setting up specialist court centres to hear complex fraud cases should be considered. The association represents barristers, lawyers who act as advocates in the higher courts.

Lex, Page 12

Audit debate shakes up tiny parliament

Jersey legislators import Westminster-style politics

Microphones hang from the roof of the tiny debating chamber of the States, the miniature parliament of Jersey, the largest of the Channel Islands between England and France. Monday's live broadcast of the debate on a new law for accountants went out on BBC Radio Jersey – a station which regularly reaches 52 per cent of the population every week. Monday's broadcast may well have broken records.

The States' decision to back a new law allowing UK accountants to register on the island in limited liability partnerships has ended one of the most turbulent political debates in living memory. Its repercussions have been widely felt across a tight-knit community of 90,000 people. Politics in the style of the UK government at Westminster has arrived in Jersey – an event probably related to the fact that it is election year on the island.

The law allowing accountants to register in Jersey as limited liability partnerships has been a catalyst for this change. The new law protects the personal assets of accountants in audit firms from legal actions resulting from errors made by fellow partners – although it does not protect the firm or the negligent partner.

Critics said it reduced the ability of investors to get their money back when companies failed. The bill was championed by the island's leading politicians – seen by critics as members of an informal and patrician "old guard".

Heading this "old guard" is Senator Pierre Horsfall, the island's chancellor, who is a politician of old-fashioned understatement. Also caught in the crossfire has been Senator Reg Jeune – the States' "father of the house" and grand old man of island politics, who is to retire soon.

The opposition has come largely from a new generation of younger politicians prepared to rock a political boat which has been stable for more than 40 years. Official allowances for States' members mean that a new breed of islander can afford to enter politics. The States – which has no parties or formal groupings – has seen nothing like this before.

Tellingly, one of the leading critics, Deputy Gary Matthews – one of the States' members who represents a parish, a small district – has floated the idea of forming a "backbench" group – similar to the UK Conservative party's own 1922 Committee. Such a development is rare in Jersey politics.

Another leading critic, Senator Stuart Syvret, has targeted alleged conflicts of interest in the States. One specific case, he said, "reeked of sleaze" – a remark for which he was banned when he refused to withdraw it. The issue has dominated headlines in the local evening newspaper for months.

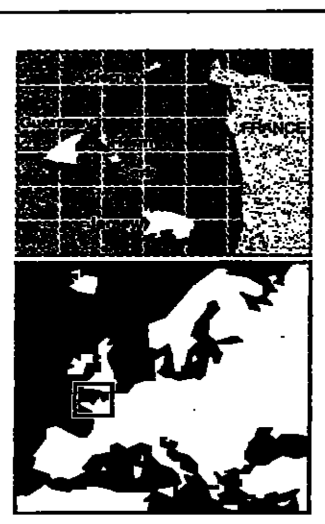
The opponents have won some moral support from the UK – from Mr Austin Mitchell, an MP for Labour, the main opposition party, and Professor Prem Sikka of the University of Essex, two leading critics of the big accountancy firms.

Now that the debate on the island appears to be over, there may be a cooling down period. The critics have been embarrassed and angered to find their attacks portrayed as undermining Jersey's reputation as an offshore financial centre. Finance and banking provides more than half the island's GDP and helps keep unemployment below one per cent.

Other politicians, most of whom are genuinely unaligned, value Jersey's discreet reputation and have been horrified by the publicity.

Shared national interest may restore calm – at least until after the elections.

Jim Kelly



Senators Stuart Syvret (left) and Reg Jeune

Premier demands party unity

By Robert Peston, Political Editor

The prime minister will today tell his cabinet colleagues that they must gain advance clearance from him for all their speeches at the forthcoming annual conference of the governing Conservative party, especially all references to the European Union.

Mr John Major is also expected to tell the cabinet meeting that there should be no more "freelance" efforts by ministers to reinterpret government policy on a European single currency. The policy is to keep open the question of whether sterling ultimately joins the single currency.

His warning will be made to prevent the party conference in two weeks being overshadowed by divisions over the single currency, following the recent ministerial quarrel initiated over the weekend by Mr Kenneth Clarke, chancellor of the exchequer.

Most of the cabinet meeting will focus on tactics for the conference. The Tory theme will be that it is the party of "opportunity for all". The party will characterise itself at the conference as "classless". It will allege that the opposition Labour party is now obsessed with the middle class. The Conservatives are expected to make much of the fact that the Labour leader, Mr Tony Blair, was educated at a private school.

However, Mr Major is concerned that this "message" will be overshadowed by the single-currency dispute and the rampant desire of Eurosceptics for the chancellor to be removed.

Mr Major is under pressure from pro-European Tories to make a statement at the start of the conference ruling out any further shift of the single currency policy in a Eurosceptic direction.

However, influential ministers believe this would seriously damage the party's electoral prospects.

Mr Clarke outraged Eurosceptics four days ago when he made remarks in an interview which they saw as increasing pressure for sterling to join a single currency in the first wave, expected to be in 1999.

He has since said that his remarks were misinterpreted, but is understood to be deeply concerned that the prime minister may change the single currency policy and rule out the participation in it of sterling during the lifetime of the next parliament.

Mr Clarke has made it clear he would quit, if such a change were made. One minister said yesterday that Mr Clarke's resignation would not be a fatal blow to the government.

UK NEWS DIGEST

Assurance over financial rules

Lessons learned from problems uncovered at Morgan Grenfell Asset Management and the Jardine Fleming investment management group in Hong Kong are unlikely to have a significant effect on regulation in the City of London, Mrs Angela Knight, a junior minister at the Treasury, said yesterday.

"People see these events [at Morgan Grenfell and Jardine Fleming] as things that involve individual companies rather than things that will have knock-on effects to the whole industry," she said. "You can never regulate to prevent someone behaving in a way that is totally irresponsible."

She said that although the government and City watchdogs, such as the Securities and Investments Board and the Personal Investment Authority, were seeking to simplify how companies are regulated, the main framework of regulation would not change. "Any change to the Financial Services Act would be disruptive, divisive and expensive," said Mrs Knight. *Motoko Rich*

■ LIBERAL DEMOCRAT PARTY

Call to end EU fishing policy

The Liberal Democrats yesterday called for the scrapping of the "grossly wrong" common fisheries policy of the European Union, in a sign of the centrist party's increasingly critical tone towards the EU.

The party published at its annual conference a new fishing policy based on regional quotas, which would in effect lead to the banning of the Spanish fleet from waters around the British Isles. Mr Robin Teverson, member of the European parliament for Cornwall and West Plymouth, said it was wrong that the control of fisheries policy from the Mediterranean to the Arctic Ocean should reside in Brussels.

The Liberal Democrats proposed a new regional fisheries policy, giving more control on the management of stocks to local fishermen. "We want these areas to be fished by local fleets," Mr Teverson said. "Inevitably there will be some losers, but there will also be winners."

Earlier, Mr Menzies Campbell, the party's senior foreign affairs spokesman, said the party was unequivocal that Britain should be a "full and committed member of the EU", but added that the union needed to become more democratic and decentralised. *George Parker*

■ COMMERCIAL VEHICLES

Government is urged to cut tax

Vehicle excise duty (tax disc) rates on commercial vehicles should be reduced and restructured to align them more closely with the European Union average and to encourage the use of the most environmentally friendly vehicles, the Retail Motor Industry Federation has told the government in a submission before the Budget in November.

The federation, which represents the UK's 7,000 franchised motor dealers and related retail interests, is also calling for the government to give renewed consideration to a car scrappage (disposal) incentive scheme put forward by the Society of Motor Manufacturers and Traders, and which is claimed to represent the biggest single effective step the government could take to reduce atmospheric pollution by vehicles. *John Griffiths*

■ HEART DISEASE

Incidence falls sharply in Scotland

Scotland may no longer deserve its reputation as one of the worst places in the world for death from coronary heart disease. Latest statistics from the Scottish Office show that the incidence of death from coronary heart disease among people aged under 65 fell sharply between 1986 and 1995. Among men the death rate fell by 47 per cent and among women by 51 per cent. The drop in the death rate is faster than the 40 per cent target between 1990 and 2000 set by the Scottish Office's Department of Health. However the department points out that the goal of 40 per cent would still leave Scotland with higher mortality from coronary heart disease in 2000 than several western countries had achieved by 1990.

Dr Robert Kendell, Scotland's chief medical officer, said the most likely causes of the drop in deaths are a substantial fall in the number of middle aged Scots who smoke and the increased use of thrombolytic (clot-busting) drugs. *James Buxton*

■ NORTHERN IRELAND

Threat to MP supporting Adams

Mr Tony Blair, leader of the opposition Labour party, yesterday raised the prospect of disciplining one of his most recalcitrant backbenchers for showing open support for Mr Gerry Adams, the president of Sinn Féin, the political wing of the Irish Republican Army.

Mr Jeremy Corbyn, MP for the London district of Islington North, was told that he faced disciplinary action if he went ahead with plans to meet Mr Adams today at Westminster. Mr Adams is due in London to launch his controversial autobiography three days after security forces in London made their biggest seizure yet of IRA explosives in a series of dramatic raids.

Mr Corbyn's office said last night he had yet to decide on his next move. Labour officials said that if he defied the latest instructions, his expulsion from the parliamentary party was most likely. *John Kampfner*

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Orimulsion power station to close

By Simon Holberton in London

The use of Orimulsion, an oil substitute, in UK power stations was yesterday dealt a blow when PowerGen, the second biggest generator, said it would cease using the fuel next April.

PowerGen said it would close its 500MW Ince power station at Elton, near Chester in north-west England, from the end of March next year. It has decided to bring back into operation a 500MW coal-fired generating unit at Fiddler's Ferry power station at Warrington, near Liverpool, which was taken out of commission in March 1994.

The closure of Ince throws into further doubt plans by National Power to push ahead with the £480m ($750m) conversion of its 2,000MW Pembroke power station in west Wales. In July the Environment Agency objected to an application by Milford Haven port authority in west Wales to build a jetty to enable importation of the fuel, which environmentalists claim is among the dirtiest and most dangerous in use.

National Power plans to install modern flue-gas desulphurisation equipment at the power station. It says that will reduce emissions to an acceptable level.

Friends of the Earth, an environmental lobby group, welcomed PowerGen's decision to close Ince and said it represented a "death blow" to the use of Orimulsion in Britain.

Mr Gordon James, a senior campaigner at Friends of the Earth, said: "Surely now National Power will see sense and withdraw their application in Pembroke and put their money into pollution abatement in coal stations, combined heat and power, clean renewable sources of energy and energy efficient schemes."

National Power said, however, it was confident that planning approvals would be forthcoming and it expected a decision by the end of this year. The company has alternative plans to use a Texaco facility to unload tankers, and to use an existing jetty to handle imports of limestone for the flue-gas desulphurisation process.

PowerGen was a pioneer in the UK in using Orimulsion. The closure of Ince will follow the expiry of a five-year Orimulsion contract which will not be renewed.

The company has been twice sued over the alleged harmful effects of Orimulsion but a spokesman said that the decision to end its use was taken for purely economic reasons. The cost of maintaining Ince, an oil-fired power station that had been converted to use Orimulsion, was greater than that of bringing back into commission a generating set at Fiddler's Ferry.

IMF warning to chancellor over tax cuts

By Robert Chote, Economics Editor, in Washington

Mr Kenneth Clarke, the chancellor of the exchequer, risks alarming the financial markets and putting upward pressure on interest rates if he cuts taxes significantly in November's pre-election national Budget, the International Monetary Fund warned yesterday.

In its latest World Economic Outlook, the IMF said long-term interest rates in the UK were already higher than they would otherwise be because of worries about the outlook for government borrowing. Financial market confidence and long-term rates "could be more adversely affected by continuing fiscal slippage".

Mr Michael Mussa, the IMF's chief economist, said the present level of base rates in the UK was appropriate at 5.75 per cent, although rates would have to rise if the pace of economic growth accelerated as the Fund expected.

The IMF report said the government needed to take corrective measures to offset some of the recent weakness in tax revenues to keep on course to balance its books over the medium term. In the preliminary conclusions of its Article Four report on the UK over the summer, the IMF implied that fiscal policy should be tightened in the Budget.

Activity in the UK economy is expected to continue picking up through the remainder of this year, with growth running above its long-term trend rate throughout 1997.

The IMF economists stuck with their May forecast of 2.2 per cent growth this year, but raised their forecast for 1997 from 2.7 to 3 per cent. However, the IMF has consistently underestimated the magnitude of both upswings and downswings in the UK economy since the early 1970s.

The UK government's favoured measure of underlying inflation – which excludes interest payments on loans for homes – is forecast to decline from 2.7 per cent this year to 2.4 per cent in 1997, taking it within the rolling target range of 2.5 per cent or below. The current account deficit is meanwhile forecast to drop this year, next year.

The Fund spoke in glowing terms of the labour market reforms carried out by the government over recent years.

In a warning shot at the opposition Labour party, it singled out as one beneficial reform the decision to abolish minimum wages for most groups of workers.

Indian company agrees textile machines licence

By Peter Marsh in London

Camber International, a leading UK maker of textile machines, has reached a two-way outsourcing deal with a large Indian machinery company.

Bombay-based Himson is to make a new design of Camber machine under licence for sale in Asia. It will also feed back to Britain some relatively low-value components for use in Camber systems being sold in Europe and the US. The deal will give Camber a new partner in a fast-growing part of the world, and provide it with parts which can be made more cheaply than in the UK because of lower labour costs.

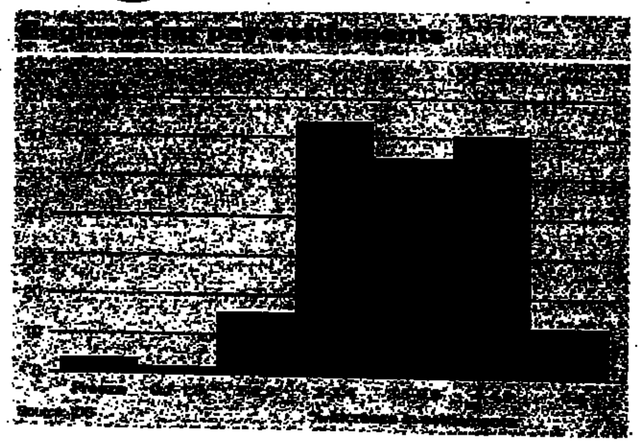
Mr Shes Simpson, joint managing director of SP Engineering, which owns Camber, said the deal would protect the company against possible rises in costs in the UK. "It should help us in our expansion plans," he said.

Camber was bought by SP Engineering, a privately-owned engineering company, in 1989 from the US-owned Cobble Blackburn group. In the past five years Camber has doubled annual sales to about £11m ($17m), of which 85 per cent is exported.

The machines being made in India by Himson will be mainly for the textile industry in eastern Asia. Himson is one of India's biggest textile machinery makers. It already has a deal with Rieter, a big Swiss machinery builder, to make Rieter-designed products in India.

Engineering workers find flexibility pays

By Robert Taylor, Employment Editor



Trade unions are playing a significant role in negotiating new-style collective agreements in engineering companies. The agreements provide job security guarantees and pay rises beyond inflation in return for sweeping changes in working practices that boost productivity.

This is the main finding in the first annual analysis of pay in engineering published today by Incomes Data Services, the independent wage research body. It reveals widespread team-working, multi-skilling, single status in terms and conditions of manual and white-collar workers, and the end of rigid demarcation between jobs.

"These changes are helping to deliver significant improvements in productivity," says the report. "But engineering employers, in a highly unionised sector of the economy, are finding increased flexibility comes at a cost."

The report finds that six out of ten of the 215 engineering company pay settlements reported in the 12 months to the end of August paid increases of 3.5 per cent or more with over a third providing rises of at least 4 per cent. There is also evidence of growth in the number of settlements of two years or longer. Such deals are widespread in the car industry but are also common among car component suppliers and parts of the electronic industry, says the report.

Britain's car workers are once again among the elite of male manual workers, says IDS. Their average earnings were just 1 per cent below the whole-economy average for all male employees in April last year in contrast with male manual workers as a whole whose earnings were 22 per cent below the economy average.

The study also finds that craft workers, traditionally the elite of the workforce, are continuing to play an integral role in vehicle production and general engineering with the craft rate setting the benchmark for other groups. According to the report, "little regional variation exists in the average earnings of skilled male engineering workers outside Greater London."

But the study also finds "very little headway" (except at Vauxhall, the UK offshoot of General Motors) towards a cut in the basic working week. Nevertheless, many companies have introduced flexible working time arrangements as a "way of weathering fluctuations in demand without recourse to redundancies or short-time working".

مكتبة من الأصل

ARTS

Cinema/**Nigel Andrews**

Perplexity sur la mer

Platonic romance: Amanda Langlet and Melvil Poupaud in Eric Rohmer's blissful 'A Summer's Tale'

A SUMMER'S TALE
Eric Rohmer

JANE EYRE
Franco Zeffirelli

LAST MAN STANDING
Walter Hill

MULTIPLICITY
Harold Ramis

DON'T FORGET YOU'RE GOING TO DIE
Xavier Beauvois

Watching Eric Rohmer's *A Summer's Tale*, you realise what is wrong with every film not by Eric Rohmer. No one wastes time in them; no one mooches about, stares into space or persuades you that he or she is thinking. In Hollywood and kindred places "thought" is conveyed by an economical frown or a light-bulb look, cinema's time-saving answer to the cartoon "thinks" bubble.

Certainly no one would wander wordlessly around Dinard for ten screen minutes, as Melvil Poupaud's hero does at the start of this blissful third film in Rohmer's quartet based on the seasons. A spindly pin-up with exploding black hair, he is here to rendezvous with girlfriend A (Aurélia Nolin), but since she has not shown up yet he is side-tracked by new girlfriend B (Gwenaëlle Simon), a perky brunette who shares his love of sea shanties.

However, typically of a Rohmer plot, he spends most time with girlfriend C (Amanda Langlet), a waitress-cum-ethnography student he meets called Margot. This is a platonic romance which Plato would doubly applaud, since it is conducted according to the dictates of the peripatetic school of philosophy. Day after day they wander cliffs, beaches and old fortifications, unpicking the subtleties and contradictions in each other's characters.

The film is all talk and all walk. But what walks – cinematographer Diane Baratier turns the Brittany coast into an eye-feast of bleakly beautiful crags and horizons – and what talk. Rohmer's casual style makes you believe you are hearing nothing while it tunes you into the wittiest ironies and slyest perspectives on love's delusions. "A habit of coincidence!" is Margot's definition for Gaspard's lazily founded belief that he loves the absent blonde, a romance formed from repeat chance encounters in his home town. And the brunette is revealed as a vulgarian with principles, a cliché coquette whose cliché payoff is "I never sleep with men on a first date."

So the romance that should happen never happens. Gaspard and Margot have all the honesty and intimacy a boy and girl could share, but where is love without pain, adversity and mad chemistry? Rohmer pursues the paradoxes so deftly that our hero ends up juggling three girls in a climax of perfect comic desperation – he has promised them all a trip to the same island on the same day – from which there is only one possible escape route. Into himself; into the rarer dreams of a truer future; into the blue beyond that stretches like a luscious backcloth to this tale of perplexity *sur la mer*.

★

Just what Rohmerless movies can be like we learn from *Jane Eyre* and *Last Man Standing*. In both we are wacked over the head with custom-made cause-and-effect and pounds of plot predetermination. Franco Zeffirelli's version of the Brontë novel has been designed for international consumption. The director is Italian; the Rochester is American (William Hurt); a New Zealand girl (*The Piano*'s Anna Paquin) plays the child Jane while a French girl (Charlotte Gainsbourg) plays Jane the governess.

They might as well enact the whole thing at the top of the United Nations building. Instead we get a token Yorkshire presided over by Joan Plowright, clucking and cooing as Mrs Fairfax: a housekeeper who must have her work cut out serving Mr Rochester his cheeseburgers while Jane demands the *quenelles de brochet*.

Every plot climax, from Rochester's horse-fall to the fire that kills the first Mrs R, is manoeuvred into place like noisy scenery. And in between we have enough time to gasp at the inexpressiveness of Gainsbourg, *offering one moody pout to* convey the hundred inner mutations of Brontë's heroine, and the inappropriateness of Hurt. Isn't Mr Rochester supposed to be a forbidding, even somewhat ugly gentleman, on first view? Hurt, sullen but dashing-looking, looks as if he has ridden onto the screen after a hard day at the Lord Byron Lookalike Contest.

Last Man Standing at least has the courage of its imbecilities. To follow this film's plot you need to know Kurosawa's *Yojimbo*, with additional reference to its first western remake, Sergio Leone's *A Fistful Of Dollars*. Walter Hill's version could be a computer game adaptation of both. A mad hero (Bruce Willis) jumps about the screen at what seems triple speed, blasting the madder bad guys led by Christopher Walken. Very staccato, very stroboscopic: the vulnerable viewer could well develop the equivalent of Nintendo epilepsy.

Every few seconds a new saloon door is broken, a new villain perforated, a new twangly-menacing chord sounded on composer Ry Cooder's guitar. And here in the 1930s Tex-Mex border town where Willis is fighting two gangs of liquor smugglers, one Italian and one Irish, the weather is more alarmingly volatile than anything: scorching sun by day, *film noir* rain by night. Never mind meteorological plausibility when an action auteur sets out to crossbreed the western with the gangster film.

What ever has happened to Walter Hill? The director of *Driver*, *Streets Of Fire* and *Southern Comfort* used to make movies that held the attention while stretching the mind, or at least the senses. More recently he seems caught in some nightmare borderland between *echt*-Brecht westerns (*Geronimo*, *Wild Bill*) and bids for splashy populism. *Last Man Standing* comes in the second category, but the only populace likely to turn up to be splashed are those already damp as they try to escape a rainy afternoon.

The press show of *Multiplicity*, a comedy of cloning in which Michael Keaton plays four roles, was attended by the three Beverly Sisters. For reasons I could not determine, and did not dare to ask, the veteran British singing trio was there wearing haute couture boiler suits and pink sequined miner's helmets.

Had they been hired to hack some PR glitter from the rockface of a film grimly received in America? No real need. Harold Ramis's romp about an overworked builder who quadruplicates himself at a genetics lab, thereby enabling him to work more, play more and spend more time with wife Andie McDowell, may not match Ramis's last proliferating-identity comedy *Groundhog Day*. But Michael Keaton cunningly punches up variations on his star trademarks – the baby features, elastic voice and pocket-maniac mannerisms. And the screen's own computer wizardry has evolved to the point that we barely even *notice* the ingenuity with which one frame swarms with several overlapping Keatons.

Film critics should send their most junior clones to the French film *Don't Forget You Have To Die*. Xavier Beauvois's Aids drama has taken two years to limp from Cannes to London, where it should expire in a blaze of indifference. A young art student (played by the director) learns that he is HIV-positive and goes on a last reckless pilgrimage through sex, drugs and love before dying in a foreign war. Perhaps we should give him the Lord Byron award that William Hurt so narrowly lost. Or perhaps we should just close the intensive-care screens around a film of sonorous emptiness and slackly structured pretension.

Theatre/**David Murray**

Farcical fraud

Alastair Muir

Flailing in a sea of inconsistencies: Anita Graham, Nick Wilton and Frank Thornton in Michael Cooney's 'Cash on Delivery'

The new farce – well, new-*ish*, but certainly farcical – at the Whitehall Theatre is by Michael Cooney, son of Ray. He thinks it is "about" social-security fraud, but it is not; it is not that kind of play at all.

This is the kind of play it is: within the first couple of minutes, we learn that Eric (youngish, scruffy, married and living just off the Mile End Road) has for years been claiming regular DSS pay-outs for a long-departed lodger, though for reasons which remain unfathomable he is now ringing the DSS to have them cancelled. On a cordless telephone, which he has to stuff down his trousers whenever his wife passes through; that caused inordinate mirth among a *smallish section of the audience*.

Before long we discover that his DSS frauds are multiple, and further that the DSS has been only too keenly anxious to pay up more and more to his fictitious lodgers, and their many fictitious dependants when they are overcome by fictitious disabilities. None of this is developed, nor remotely plausible or funny, but it is the premise for the action. In fact it is there to shore up a routine farce of pretended identities.

When DSS officials come visiting, Eric hastily enlists his real lodger Norman and his game-for-anything "Uncle George" to play the fictitious benefactees. As you may all too easily imagine, they run into comical difficulties. *Not only do they* find themselves masquerading simultaneously before officials who have been told incompatible stories, but they have to fake different conditions at once: being stone deaf, being gout-ridden, being improbably young or old, or female, or dead. Ha ha.

The DSS officials, and several other persons from nearer home who have also to be deceived, must be unbelievably obtuse – and just to that extent, any fleeting sense of risky thrills evaporates. We are watching nothing but hoary routines. Only inspired, physically expressive comedian-principals could make it seem to work, and the Eric (Bradley Walsh) and the Norman (Nick Wilton) are not such people.

There are nonetheless three bright cartoons: Jean Fergusson's doughty Ms Cowper from the DSS, Justin Chevlin's weedy, self-deflating Dr Chapman (something to do with marital guidance), and John Hart Dyke's unctuously respectful undertaker. Perhaps Frank Thornton's DSS man Jenkins should count as a fourth, though the script soon leaves him flailing in a sea of inconsistencies – like Anita Graham's pleasantly dim, well-meaning Sally from the Family Crisis unit.

In effect, *Cash on Delivery* pushes a political programme along ("Kill welfare!") on an old-style vehicle which is too timelessly familiar to be timely or funny, except to the Pavlovian part of the audience ready and willing to supply an automatic laugh-track. Most TV sitcoms, however abject, are more expert than this thin, jerry-built farce.

At the Whitehall Theatre

Theatre/**Ian Shuttleworth**

Comprehensively bugged

Bearing no relation to the 1975 cult horror movie of the same name about arsonist cockroaches from hell, Tracey Letts' second play *Bug* touches at times upon each and every meaning of the word "bug". When the quiet, somehow *different* Peter turns up in Agnes' Oklahoma hotel room and insinuates himself into her life, he seems to bring with him an infestation of aphids.

Peter is also not a little paranoid about surveillance, *insisting on drawn curtains*, locked doors and ultimately sheets of tin foil around the room to jam any "transmissions". The nasty little mites appear at their most toothsome when one or other of the central couple is placed under severe stress – when they are bugged in other words, they are comprehensively bugged.

Letts – author of last year's Edinburgh and London success *Killer Joe* whose Hired Gun company from Chicago also performed this play – has cooked up a broth of paranoia both spontaneous and cocaine-induced, no-hope white-trashery, domestic violence, the horrors of co-dependence and shared delusions, and liberal doses of *Psycho*: Peter gives off a Norman Bates-ish odour from the start, the action is confined to a motel, and a psychiatrist turns up later to "explain things" in a uniquely caustic, self-interested manner.

The mood of the play is similarly lumpy, an uneasy mixture *of cynical humour* and grim psychological degeneration. In early scenes, a sense of unease bleeds disquietingly through Peter and Agnes' initial conversations. By the latter stages, this edge has disappeared.

One can admire Letts' imagination in equipping Peter with almost the definitive conspiracy theory (only the Trilateral Commission is missing), but even when Agnes picks up the can of worms and runs with it, adding further complexities to the hypothesis, the primary sense of the spectator is one of uncomprehending otherness. The snorted lines and fly-papers, wife-beating and self-mutilation, right through to the inexorable despairing conclusion, constitute a spectacle rather than an experience – we watch but feel little.

Shannon Cochran and Michael Shannon mesh well together as the protagonists, and director Wilson Milam handles their linking up well: they drift together, mostly between their spoken lines, *for reasons which neither can fathom*. As the script strays further from the path of mental equilibrium, however, it becomes progressively more difficult for either director or performers to retain a handle on matters. A disturbing curio such as this will not provide the consolidation that some critics, and perhaps Letts himself, may have hoped for.

At the Gate Theatre, London W11 until October 19 (0171 229 0706).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Concerto Italiano: with conductor Rinaldo Alessandrini, soprano Rossana Bertini, alto Claudio Cavina, tenor Sandro Naglia and bass Sergio Foresti perform works by Bononcini and Scarlatti; 3pm; Sep 28

OPERA
Het Muziektheater Tel: 31-20-5518117
● Elektra: by R. Strauss. Conducted by Hartmut Haenchen and performed by De Nederlandse Opera, the Nederlands Philharmonisch Orkest and the Toonkunstkoor Amsterdam. Soloists include Anne Gjevang, Eva-Maria Bundschuh, Walter Raffeiner and Jukka Rasilainen; 8pm; Sep 26

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Rundfunkchor Berlin: with conductor Robin Gritton perform works by Reger, Brahms and Berlioz; 7pm; Sep 28

DANCE
Staatsoper Unter den Linden Tel: 49-30-20354438
● The Sleeping Beauty: a choreography by Rudolf Nureyev after Petipa to music by Tchaikovsky, performed by the Staatsopernballett Unter den Linden. Soloists include Siepert, Weber, Knop and Schroeder; 6.30pm; Sep 27, 29 (7pm)

OPERA
Komische Oper Tel: 49-30-202600
● Lucia di Lammermoor: by Donizetti. Conducted by Yakov Kreizberg and performed by the Komische Oper. Soloists include Noëmi Nadelmann, Christiane Bach-Röhr and Stephan Spiewok; 7pm; Sep 27

■ COLOGNE

CONCERT
Opernhaus Tel: 49-221-2218240
● Junge Sinfonie Köln: with conductor Andreas Wiedemann, soprano Juanita Lascarro, violinist Daniel Pergamenschikov, trumpeter Thilo Franke, pianists Heinz Martin Lonquich and Michael Rämisch, Die Michaelstrompeter and Markus Stockhausen perform works by Beethoven, Kagel, Ysaye and Strauss. Benefit concert on the occasion of the 50th anniversary of Unicef; 11am; Sep 29

■ COPENHAGEN

CONCERT
Tivoli Concert Hall Tel: 45-33 15 10 01
● Det Kongelige Kapel: with conductor Manfred Honeck and soprano Inga Nielsen perform works by Mozart, Strauss and Brahms; 8pm; Sep 27

■ DUBLIN

CONCERT
National Concert Hall – Ceoláras Náisiúnta Tel: 353-1-6711888
● City of Cork Male Voice Choir and the Kinsale Opera Chorus: with conductor Frank Buckley, tenor Gabriel Sadé, soprano Orla Boylan, baritone Igor Morozov, pianist Jimmy Vaughan and narrator David McInerney perform works by Verdi, Bizet, Bellini and Puccini; 8pm; Sep 28

■ ESSEN

DANCE
Aalto Musiktheater Tel: 49-201-81220
● Eugene Onegin: a choreography by John Cranko to music by Tchaikovsky, performed by the Theater und Philharmonie Essen. Soloists include Rebeck and Rodemund; 7pm; Sep 28

■ HANOVER

OPERA
Opernhaus Tel: 49-511-1686161
● The Bartered Bride: by Smetana. Conducted by Gregor Bühl, performed by the Hannover Staatsoper. Soloists include Xenia Maria Mann, Camilla Nylund and Leonard Delany; 7.30pm; Sep 27

■ HELSINKI

OPERA
Opera House Tel: 358-0-403021
● Insect Life: by Kalevi Aho (world premiere). Conducted by Pertti Pekkanen and performed by The Finnish National Opera. Soloists include Heikki Keinonen, Ritva-Liisa Korhonen and Anna-Lisa Jakobson; 7pm; Sep 27

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● London Symphony Orchestra: with conductor Richard Hickox, soprano Yvonne Kenny, tenor Philip Langridge, baritone Stephen Roberts and the London Symphony Chorus perform Dyson's The Canterbury Pilgrims; 7.30pm; Sep 29
Purcell Room Tel: 44-171-9604242
● The Feinstein Ensemble: with conductor/flutist Martin Feinstein, flutist Katy Ganham, violinist Levine Andrade, harpsichordist Maggie Cole and cellist Justin Pearson perform J.S. Bach's Suite No.2, Brandenburg Concerto No.4 and Brandenburg Concerto No.5; 7.30pm; Sep 27
Wigmore Hall Tel: 44-171-9352141
● Anthony Marwood and Susan Tomes: the violinist and pianist perform works by Ravel, Dvořák and Bartók; 7.30pm; Sep 27

■ MADRID

EXHIBITION
Fundación Cultural Mapfre Vida Tel: 34-1-5811628
● 50 Años de Fotografía Española en la Colección de la Real Sociedad Fotográfica (1900-1950): exhibition giving an overview of Spanish photography in the first half of this century. Included are photographs by Antonio Cánovas del Castillo Vallejo, also known as Kaulak, Carlos Iñigo, Antonio Portela, Willy Koch, Pla Janini and others; to Sep 29

■ PARIS

EXHIBITION
Centre Georges Pompidou Tel: 33-1-44 78 12 33
● Dessins contemporains du Musée de Bâle: this exhibition shows a collection of contemporary drawings, collected by Dieter Koepplin, the curator of the Kunstmuseum Basel; to Sep 30

OPERA
Théâtre du Châtelet Tel: 33-1 42 33 00 00
● The Rake's Progress: by Stravinsky. Conducted by Esa-Pekka Salonen and performed by the Los Angeles Philharmonic and the London Sinfonietta Voices. Soloists include Donald Adams, Dawn Upshaw and Paul Groves; 7.30pm; Sep 28, 30

■ STUTTGART

EXHIBITION
Staatsgalerie Stuttgart Tel: 49-711-2124050
● Die Stiftung Froelich: exhibition featuring German art from the collection of Josef and Anna Froelich, which includes 308 paintings, prints, photographs, sculptures and installations, and focuses on German and American modern art; from Sep 28 to Nov 24

■ THE HAGUE

EXHIBITION
Het Paleis Tel: 31-70-3381120
● Uit Koninklijk Bezit: exhibition featuring a selection of works from the collection of the Dutch Royal Family; from Sep 28 to Dec 1

■ TORONTO

OPERA
O'Keefe Centre for the Performing Arts Tel: 1-416-393-7474
● Salome: by R. Strauss. Conducted by Richard Bradshaw, performed by the Canadian Opera Company. Soloists include Ljuba Kazarnovskaya, Simon Estes, David Rampy and Jane Gilbert; 8pm; Sep 27

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10.00 *European Money Wheel*
18.00 *Financial Times Business Tonight*

COMMENT & ANALYSIS

Economic Viewpoint · Samuel Brittan

The euro will surely come

Even if the UK decides to remain outside European monetary union, the new euro could become a parallel currency alongside sterling

The Bank of England has taken trouble to see that British financial institutions are fully prepared for European economic and monetary union by 1999. Irrespective of whether the UK government decides to participate, the Bank is concerned that institutions and businesses should be equipped to use the euro, the proposed currency of Emu members.

After all these efforts some businesses may be tempted to use the euro for some transactions inside the UK. This could happen even if the UK exercises its option to stay outside Emu. Eventually the euro could circulate in the UK and even come to displace sterling as principal currency.

Major financial institutions already prepare investment valuations for foreign customers in their own currencies; and from here it will be a short step to providing them in euros. The innovation – which Coutts is considering, along with a number of other institutions – would be to offer such valuations to domestic clients.

The use of euros for actual domestic payments would be yet another step. Indeed the circulation inside the UK of the euro as a parallel currency along with sterling is entirely possible. Many Latin American countries have *de facto* parallel currencies. The US dollar is used not only for international trade but for other large and long-term contracts; national currencies are confined as much as possible to the small change of retail transactions. In many parts of the former Soviet Union both dollars and D-Marks are so used.

But even outside these unstable areas, alternative currencies can be found – especially in frontier areas. In Geneva, French as well as Swiss francs are generally acceptable. In the railway station of the Austrian town of Salzburg, luggage trolleys can be freed with D-Marks or Austrian schillings.

In the Channel Islands, many shops will accept French francs. They will be even more likely to accept the euro. (So-called euro coins, with a gold content, have already been minted in the Isle of Man, but they have been treated mainly as collectors' items.)

When the euro comes into general circulation, which is planned for 2002, British residents will need to take euros when travelling around the continent. In time British executives might even want some of their salaries paid in that currency.

None of this will happen overnight. But increasing familiarity is bound to encourage its use so long as the European currency really is run on similar lines to the German D-Mark.

Mr Tristan Garel-Jones, a former Conservative minister, wants to encourage this process. He has accordingly proposed that if the euro gains the confidence of the world currency markets, it should then be declared legal tender in the UK side by side with sterling.

In fact legal tender is largely an archaic concept. It had historical importance when currency was based on precious metals and the Bank of England was struggling to encourage the acceptance of its notes as substitutes. But what matters for the spread of a currency is its acceptability rather than whether or not it is accorded that status.

Today anyone can make a contract with any agreed means of settlement: sterling, gold, dollars or a currency basket. It can be made in terms of yards of copper or even cowrie shells. It is the agreement of the parties concerned that matters.

Legal tender only comes into question if a contract has been denominated in sterling and there is a dispute about whether it has been settled or not. If Bank of England notes or coin are offered, that is regarded by the courts in England and Wales as discharge of the debt. In theory a cheque or any other transfer from a bank account is not valid. But it is unthinkable that creditors should demand the settlement of large sums in barrels of notes or that the courts will encourage them to do so.

What is more important is the idea of parallel currencies. In the inflationary 1970s the economist Friedrich Hayek so despaired of the likelihood of governments stopping inflation that he proposed competition in currencies in the hope that the best ones would drive out the worst. His original idea was that private enterprise currencies would compete with official ones.

This aspect of his idea never really caught on. But well before the Delors Committee of 1988, which laid the basis for monetary union, there were many plans for introducing another currency into the European Community which would compete with national currencies and might eventually displace them.

The UK government picked up the idea of competition among existing currencies in the late 1980s. The background was that at the Madrid conference of 1988 Margaret Thatcher astonished her own ministers by saying her government would produce an alternative route to monetary union to that proposed by Delors.

Her advisers racked their brains for some way of fulfilling this undertaking. Nigel Lawson, the then chancellor, had read Hayek's original ideas and proposed competition among existing European currencies. UK Treasury officials did not, however, think currency competition was very likely in view of the strong popular attachment to national currencies. They thus tried to substitute competition between monetary policies.

But from the European point of view, the problem was the idea was not backed by enough hard proposals – precisely because many European citizens could already use whatever currency they desired. The possibility of achieving more impact by abolishing the status of legal tender was investigated. But the Bank of England successfully blocked that, even though it was the first to argue the concept made little difference.

The next British idea was based on the European Currency Unit or Ecu. This has existed since the beginning of the European Monetary System in 1979 as a simple basket of currencies. John Major proposed to transform this into a "hard Ecu".

The proposal brought to mind a remark by Bismarck about the Schleswig-Holstein problem: only three people ever understood it; and they had all forgotten or died. Similar remarks would apply to the "hard Ecu". But this did not prevent Conservative ministers and MPs from trying to paper over their own divisions by saying "We favour the hard Ecu", without having the faintest idea what they meant. In any case the idea found no support among EU members. It is now the euro or nothing.

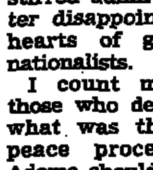
It would be wrong to pretend that the gradual voluntary spread of the euro could be anything other than second or third best. Leaving the euro to voluntary adoption would still mean the UK would be confined to an outer circle outside the main centre of European decisions. It might provide an excuse to postpone giving the Bank of England independence, and its spread would be unlikely to be quick enough to prevent governments indulging in inflationary temptation.

But something is better than nothing; and it will be amusing to see the Eurosceptics discovering that, even if the government exercises its opt-out from Emu, they will not have seen the end of the European currency, but only its beginning.

BOOK REVIEW · Philip Stephens

BEFORE THE DAWN. By Gerry Adams
William Heinemann, 346 pages, £17.99

Ireland's mascot for the gullible



During the past two years Gerry Adams has dominated the tragic politics of Northern Ireland. Through and beyond the IRA's ceasefire, the bearded president of Sinn Féin has filled the television screens and front pages.

He has shaken the hand of President Bill Clinton. He has become a mascot for the gullible glitterati of Hollywood. Above all, he has stirred admiration and bitter disappointment in the hearts of genuine Irish nationalists.

I count myself among those who decided early in what was then the Irish peace process that Mr Adams should be given the benefit of the doubt. We all knew his background as one of the IRA's most ruthless commanders. But 3,000 people had died during 25 years of mindless mayhem. If Mr Adams could deliver peace, then give him a chance.

So politicians, officials and commentators colluded in the fiction that the IRA and Sinn Féin were separate, the one committed to the bomb and the bullet, the other the ballot box. The patent contradiction – Mr Adams could deliver peace only if the two organisations were in fact one – was quietly ignored.

The British and Irish officials who talked (negotiated was never quite the right word) with Mr Adams over many hours during the ceasefire were mostly convinced he wanted an end to the violence. They were not quite sure why.

Some said it was the wearied sobriety which comes to most of us in middle age. Others that he had genuinely reached the conclusion that the British would never be driven out by force. He must have been influenced too by the terrorists on the other side, the so-called loyalists. Their random brutality was costing the Catholic community dear.

It is a fair bet that Mr Adams would still prefer peace, probably for a combination of those reasons. But once the ceasefire exploded in the bombing of London's Canary Wharf earlier this year, the president of Sinn Féin made his choice. Perhaps it was fear, perhaps cold calculation. But while Mr Adams expressed "regret", he refused to condemn the IRA. If the ceasefire had broken down it was John Major's fault. Those who detonated tonnes of lethal explosive in the streets of Britain's cities were blameless.

Suddenly, though, Mr Adams was not quite such a hero. We saw him wriggle in interviews when asked what purpose was served by blowing up innocent bystanders. The White House and the Dublin government closed their doors. The man of peace had become again the public face of the men of violence.

We should not be surprised, then, that Mr Adams has chosen to publish his autobiography. He needs to win back sympathy, particularly in the US. The bloody reality of smashed bodies must be replaced by the sepia-tinted romanticism of Ireland's struggle against the oppressor.

This is a bad and depressing book. Bad in its writing, in its analysis and in its culpable omissions. Depressing in that it shows how firmly even the progressives in the Republican movement remain wedded to an outdated and barren analysis of the conflict. There is one obstacle to a united Ireland – the insistence of the peaceful majority in the north on remaining part of the UK. But in Mr Adams's mind, there is nothing to blame but British imperialism.

There are interesting points. Once you are past the mawkish sentimentality with which Mr Adams evokes an impoverished childhood in Belfast's Divismore Park – "we got a bath every Saturday night. By the time the last one got in there was a scum mark around the side of the bath" – there is a much better description of the birth of the Catholic civil rights movement in the 1960s. You do not have to be an ally of Mr Adams to admit that the mean sectarianism with which unionists ran Northern Ireland after partition was a shameful episode in British history.

In a curious way the gruesome account of the hunger strikes in 1981 is also moving. That 10 young men could starve themselves to death in protest at their prison conditions was testimony to an awesome sense of injustice.

But elsewhere, Mr Adams tells us little. Save for a nasty, fictional account of the murder of a British soldier, there is little insight into his role in the IRA. Nor is there anthying but the briefest reference to the process which led to the ceasefire. Compassion is selective, reserved for the "volunteers" killed by the British and careless of the countless innocent victims of the IRA.

Doubtless, those who want to be will be convinced by this version of events. And let us hope the author continues to argue within the Republican movement for peace. But do not be conned. Mr Adams has so far shown himself a small man.

Before the Dawn *is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK*

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LETTERS TO THE EDITOR

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Depressing signal of influence in world trade

From Mr Terry Wynn MEP.

Sir, The US government is doing it again – using its economic largesse as a weapon in international trade, only this time the victims are poor Caribbean island states.

I refer to the current World Trade Organisation negotiations on the fixture of the EU's banana import regime. For years the EU has offered preferential access to its markets for Caribbean banana producers, who would otherwise be priced out of the market by the so-called Dollar Banana Companies. These multinationals (Dole, Del Monte and Chiquita) may indeed sell South American bananas, but these are plantation farm bananas, cultivated for US-owned companies, where profits made go into US pockets and taxes go to the US government.

The US, not a country known for banana production, has now brought a complaint against the EU's unique arrangement with these Caribbean states, claiming that it directly contravenes WTO rulings on free market access. What's more, pressure from the US government has resulted in the exclusion of Caribbean representatives from the WTO hearings on the subject.

This sends a clear and depressing signal that would seem to say that not only can the WTO be manipulated by its powerful members at the expense of its smallest, but that big business can truly influence elected governments.

A case of David versus Goliath? But in this instance David doesn't even stand a chance.

Terry Wynn,
European Parliament,
Rue Belliard 97-113,
1047 Brussels,
Belgium

Treatment of a sensitive topic

From Mr Martin Kohlhaussen.

Sir, Your article on the tax investigation at my bank ("Commerzbank chief in tax evasion probe", September 10) is a good illustration of how sensitive topics can all too easily be distorted by the media. On seeing the article with its large photograph of me, readers unaware of the background are bound to think that this is one more case of personal tax evasion rather than a complex dispute between a bank and the tax authorities. In fact, this impression seems to be *confirmed in the text* through the loose reference to a "wider crackdown", coinciding with the start of trial proceedings against Peter Graf.

It is true your reporter points out that I am only involved in my capacity as the bank's chief executive, that the single new aspect of the case is the willingness of the authorities to leak confidential information to *the press*, and that the bank challenges the figures presented by the tax authorities. All the same, this more objective stance is neutralised by the overall presentation of the article combined with the reference to Mr Graf's trial, with potentially harmful consequences not only for me but also for my bank and our financial centre.

Martin Kohlhaussen,
chairman of the board of managing directors,
Commerzbank,
Neue Mainzer Str, 32-36,
Frankfurt am Main,
Germany

Worth is not so simplistic

From Prof Alec Reed.

Sir, Peter Oppenheimer (Letters, September 19) suggests that to be worth their pay packets British executives ought to be (a) technically qualified in relation to the industry in which they work and (b) *able to speak a foreign language.*

Unfortunately, commercial success cannot be based on such a simplistic formula. The qualities required for effective commercial leadership are hard to define and even harder to find. What is certain is that they are in very short supply. That is why companies pay what he describes as telephone-number salaries to top executives.

Alec Reed,
chairman,
Reed Executive,
professor of innovation,
Royal Holloway University of London,
Egham, Surrey, UK

Lithuania SE largest in the Baltics, for now

From Mr Rimantas Busila.

Sir, In your article "Caution pays off for Estonia" (September 2) it was stated: "But the caution paid off, making Tallinn the largest exchange in the Baltics from day one. It is capitalised at $250m – small, yet dwarfing Lithuania's and Latvia's – and appears destined for a steady rise into the autumn."

We do not argue that Tallinn stock exchange might become the largest stock exchange in the Baltics in the future. However, at present the market capitalisation of Lithuania's national stock exchange is $565.8m, which far exceeds the figure produced for Tallinn stock exchange.

Rimantas Busila,
general director,
chairman of the board,
National Stock Exchange of Lithuania,
Ukmerges g. 41,
2600 Vilnius, Lithuania

Economics do not justify cost of owning executive jets

From Mr Frank C. Wilson.

Sir, I refer to your article "No wait at the gate" (September 9) about executive jets.

Sadly, aircraft manufacturers and executives do not want their employees and shareholders to know the cost of these aircraft. The cost cited of $85m is enough to build a factory to produce products and services. The purpose of manufacturing is to build a measurable, tangible item. So when the executives buy these aircraft, they are destroying the opportunity to build production capacity.

Aircraft manufacturers like to give "operating cost" rather than total cost. Total cost per flying hour will approach $10,000. A textile employee in the US, including benefits, costs about $25,000 annually for 1,960 hours worked. Every time our executives fly in these high-cost jets for two and a half hours, one employee must be eliminated to meet the cost – or 240 employees per year, to keep them flying.

And how many times have large portions of a company's management been lost in a company aircraft accident? Yes – managers sometimes require an aircraft: but they should be chartered, not owned.

Frank C. Wilson,
president,
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Gainesville,
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FINANCIAL TIMES

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Thursday September 26 1996

A banking black hole

There was a whiff of theatrics about yesterday's announcement that the European Commission had approved FFr3.9bn ($765m) in "emergency" aid from the French government to the disaster zone known as Crédit Lyonnais.

It has been clear for months that the state-owned bank would need another substantial injection of funds from its long-suffering shareholder. It has scarcely been a better-kept secret that the shareholder was prepared to stump up. It is less comprehensible why the Commission has been prepared to nod through another huge subsidy without extracting further significant concessions from the state or the bank.

Admittedly, Mr Karel Van Miert, competition commissioner, emphasised yesterday that this was a holding operation and that he would take a very tough line in negotiations on the overall re-rescue package for the bank in coming months. But he was also more conciliatory than he needed to be about the difficult conditions facing the bank in its home market, the need to fatten it up for eventual sale, and the danger it would have been in without yesterday's lifeline. The obvious effectiveness of the French government's lobbying thus far does not engender confidence that Brussels will translate rhetoric into action.

The truth is that there is no justification for pouring in further subsidies without a complete overhaul of the government's and Commission's approach.

First, Paris needs to be held strictly to the commitments it made when last year's bailout was approved. Progress has been too slow on divestments the bank promised to make outside France. Worse, there are signs that Crédit Lyonnais was allowed earlier this year to buy back a former subsidiary at well below market terms. The Commission is already looking into this case. It should broaden its inquiry to cover the whole relationship between the bank and the supposedly separate holding company set up to contain a large chunk of its rotten assets.

Second, the Commission should rapidly spell out its conditions for a further rescue. These must include a rapid acceleration in asset sales, including substantial divestments outside France and a shrinking of the bank at home.

France would be overbanked even without the distorted competition created by Crédit Lyonnais. If the French taxpayer – sheltered from the latest bailout because the government has dipped into privatisation receipts – is not prepared to cry enough, then the task must fall to Brussels.

Fed waits

A record of successful monetary management has one disadvantage: it becomes difficult to judge when policy should change. What needs to be done is obvious if an economy has drifted into recession or inflation. In the US today, by contrast, policy depends on a delicate balance of risks. The Federal Reserve has earned the right to the benefit of the doubt when judging that balance.

Arguments in favour of an increase in official rates could certainly be made: employment is growing about 30 per cent faster this year than last year; the unemployment rate declined to 5.1 per cent last month, below most estimates of the level consistent with stable inflation; the rate of increase in average earnings has been rising; economic growth accelerated to an annual rate of 3.4 per cent in the first half of this year; and the trade deficit is widening.

These are signs of an economy operating at full capacity and growing faster than its long-term sustainable rate. Furthermore, a rise of, say, 25 basis points in the rate of interest on federal funds would have been only a partial reversal of the reduction of three-quarters of a percentage point between June 1995 and February 1996.

Yet there were also arguments against tightening: annual consumer price inflation remains below 3 per cent, while the US dollar has maintained its strength over the last year, albeit with considerable support from foreign central banks.

Bond markets seem to have concluded so far that the Federal Reserve knows what it is doing. Recent research by Christina and David Romer of the University of California, published by the National Bureau of Economic Research, indicates why. They show that the Federal Reserve is a far better forecaster than commercial organisations, so much so that the latter would be wise to jettison their own forecasts if they could obtain the Fed's.

It may be sensible to trust the Federal Reserve, but on one proviso – that its decisions are not politically tainted. In this case, that worry cannot be discarded, given both the political vulnerability of the relatively hawkish district presidents and the possibility of a Democratic congressional victory. Only decisive action in response to any unfavourable news could scotch this concern. The employment report due on Friday week may present an early test of the Fed's credibility.

For the moment, the wait-and-see policy can be defended. But the Federal Reserve cannot afford to let allegations of political expediency become convincing. If unfavourable news arrives, it must act, regardless of political pressures.

Hanson's end

The impending break-up of Hanson, we are told, is the end of a chapter in the evolution of management. Next week, Lord Hanson's empire will be dissolved into its parts, and he himself will retire a year later. The conglomerate era is over: and the best evidence is that Hanson has failed.

Well, perhaps. The collapse in the share price in the past 18 months is striking, and the fashionable remedy of demerger has done nothing to halt it. But one of the founders is dead, and the other is 74. Hanson is not the first company to lose vitality in its latter years.

To regard the fact of break-up as failure is to misinterpret Hanson's nature. In its heyday, the company acted as a kind of investment trust, specialising in the trading of corporate assets. Now that the time is ripe and the markets hostile, the fund is being liquidated.

It is easy to forget how successful Hanson's asset broking was a decade ago. Take the 1986 acquisition of Imperial Group, another conglomerate which had lost its way. Within a couple of years, Hanson was able to recoup almost the whole purchase price through asset sales, leaving it with the original tobacco business at little or no cost. On its flotation next Tuesday, Imperial Tobacco is expected to have a market value of around £2bn.

The question is why such opportunities no longer exist. The most commonly advanced arguments are the least persuasive: that companies are now better run, and that investors are smarter.

More to the point, the inflation of the 1970s and early 1980s had made nonsense of corporate balance sheets. The knock-down price paid for Imperial was nearly three times stated book value. Also, banks were happier to lend to highly-geared companies, so that there were more buyers for the parts of companies Hanson broke up.

Above all, the market for corporate assets is now more developed. Companies no longer hesitate to shed businesses which do not fit their portfolios. There are specialist funds, such as Kohlberg Kravis Roberts or Blackstone of the US, which buy such assets, brush them up and sell them on. The difference is that businesses are now sold singly, rather than as job lots.

With hindsight, Hanson's big mistake was to hang on too long. As the markets caught up with its innovative approach to asset management, its opportunities dried up and its existing portfolio became less and less liquid. It was therefore reduced to the role of conglomerate in the least productive sense: that of trying to squeeze ever more profit out of a random collection of low-growth assets. There is some irony in this; for at its best, Hanson was not an example of the conglomerate disease, but its cure.

The FT Interview · Robert Rubin

Player of the trump card

As the US economy continues to expand, the Treasury secretary tells Michael Prowse it is not just a matter of good timing

By a curious twist of fate, a multi-millionaire from Wall Street has become the most successful – and in some respects influential – member of President Bill Clinton's cabinet.

Questions are still raised about the soundness of US foreign policy; and Mr Clinton, at times, has made no secret of his desire to be rid of Mr Warren Christopher, his secretary of state. Several members of the Clinton cabinet have had to resign and others have been accused of errors of judgment: for example, Ms Janet Reno, attorney general, presided over the tragic end of the siege at Waco, Texas.

Alone among his peers, Mr Robert Rubin, the Treasury secretary and a supposed political novice, has sailed serenely through all difficulties. He has done so, moreover, while gaining a reputation as a thoroughly nice guy. Self-effacing by nature, he has become the voice of calm reason within the higher reaches of the administration.

As the top economic official, he gains plaudits for what is Mr Clinton's trump card in his election contest with Mr Bob Dole: the apparently invincible economy. A solid expansion is now in its sixth year and the "misery index" – the sum of inflation and unemployment – is at its lowest in nearly 30 years.

It could be argued that the administration has simply enjoyed fortunate timing. Much of the economic improvement is surely the result of a business cycle upturn under way before President George Bush left office. Real gross domestic product, after all, had grown 2.7 per cent in 1992, the year before Mr Clinton's inauguration.

"Let me give you another view, if I may," he says in his polite way. "I think we were in a morass. 1992 was a better year. But the deficit was $290bn. We had an upswing within a morass."

He sticks resolutely to his view there would not have been a sustained upturn without Mr Clinton's courageous first budget. The deficit reduction measures of 1993 – for which he had argued strenuously – had been "key and indispensable" in securing the recovery.

But the administration has done little to address fundamental problems in the budget. None of the big entitlement programmes (such as healthcare and pensions) has been tackled. And last winter Mr Clinton nearly destroyed the Republicans politically by attacking their plans to curb the annual growth of Medicare (the public healthcare scheme) from 10 per cent to 6 per cent. Is this fiscally responsible?

Mr Rubin's response is to claim Mr Clinton has "pushed the politically tough issues as far as he could". The spending restraints of 1993 might look minor today, but needed enormous political courage at the time.

"If we hadn't done what we did we would have a $300bn deficit today instead of $117bn," he says. "It makes an immense difference which of those tracks you are on."

People outside the US tend to focus on another flaw in Mr Clinton's record: the growing external deficit. The US has run trade deficits every year since 1976, often very large ones. The current account shortfall this year will probably be $150bn – or 2 per cent of national income. Does this worry the Treasury secretary? Should a rich, mature economy be importing capital on this scale?

"Look, we should have a higher savings rate," he says. "I've talked to Larry [Summers, the deputy Treasury secretary] about it endlessly. It's a very troubling issue."

The difficulty, he suggests, lies in finding a lever that can influence what is "largely a cultural phenomenon". He has looked at possible tax reforms to boost savings but did not come away convinced because "most mainstream economists seem to feel the savings rate is relatively indifferent to the after-tax return on savings".

So would Mr Rubin be sympathetic to a radical reform such as a shift to a tax on consumption rather than income? "To go to a consumption tax in the US would involve monumental transitional problems," he says. The evidence that it would materially affect the savings rate is not clear enough to justify the upheaval.

But the Treasury secretary has not given up on savings: he is pursuing piecemeal measures to encourage thrift, such as inflation-indexed government bonds that would give middle-income people a better vehicle for saving.

In his 1992 manifesto, "Putting People First", Mr Clinton talked boldly about investing in people. Yet while his presidency has focused on deficit reduction, healthcare reform and welfare reform, there have been no really major changes in education or training, such as a national apprenticeship scheme.

Mr Rubin emphasises the difference between having Mr Clinton in the White House and having a Republican. Mr Clinton had defended and marginally expanded numerous schemes for the disadvantaged, such as the "headstart" programme for pre-school children.

"Now we've been constrained because we've had to do all this in the context of getting us back on a path of fiscal responsibility ... All of us would like to put greater resources into public investment, particularly investment that relates to education, inner cities, training."

Does he have any idea of Mr Clinton's priorities, should he win a second term? Has the Treasury, for example, begun to think about the severe budgetary problems posed by an ageing population?

"There's no question in my mind that he has a very dynamic attitude towards his second term." But the president now understands, says Mr Rubin, that long-term fiscal pressures in public pension and healthcare programmes could be tackled only with the support of Republicans.

"If you look at what happened to healthcare in 1994, you have to say that is right. You have to start out on a bipartisan basis and proceed on a bipartisan basis."

In addition to his economic record, Mr Rubin has won applause for his shrewd handling of several crises. If Mr Clinton had had a less adept Treasury secretary, he might have lost last winter's budget showdown with the House Republicans led by Mr Newt Gingrich, the Speaker.

Mr Rubin pulled off the feat of frightening Republicans by warning of an imminent default on US bonds while simultaneously convincing financial markets that he would find legal ways to stave off disaster. But for his credibility as a former senior partner at Goldman Sachs, the investment bank, this probably would not have been possible.

He also played the pivotal role in organising a huge financial bailout for Mexico. Economically, the case for this was dubious. The US Treasury and International Monetary Fund exaggerated the risk of "contagion": if Mexico had been forced to reach a private settlement with creditors, there is little reason to suppose investment in emerging markets would have ground to a halt.

But the manoeuvre is deemed a success in Washington: Mexico's economy is improving and Treasury loans have been repaid ahead of schedule.

And Mr Rubin seems to have put an end to the string of minor currency crises that plagued his predecessor, Mr Lloyd Bentsen. By carefully timing foreign exchange interventions, he has outwitted currency speculators on at least one occasion. And he has persuaded other members of the administration (Mr Clinton included) to let him be the sole spokesman on the currency. There is now no wavering from the official line that a strong dollar is in the US's interest.

Mr Rubin prides himself on his pragmatism and willingness to look at issues from all sides. "We're very open-minded at the Treasury," he says. "It's my core principle."

Yet he gives the impression of having a relatively narrow intellectual compass. He could not, for example, conceive that increasing public investment on things such as inner cities or training might do more harm than good.

His bookshelves have a new copy of F.A. Hayek's *Road to Serfdom*, the classic exposition of the dangers of excessive reliance on government. But he is surprised when it is drawn to his attention, appearing to regard Hayek as an irrelevant voice from the distant past.

The Treasury secretary says he read some of the book at college, but was not "totally convinced". Yet if the administration had had greater familiarity with Hayek's ideas, it might have helped prevent mistakes such as the bureaucratic blueprint for healthcare reform that marred Mr Clinton's first term.

· OBSERVER ·

Santer's short straw

■ Jacques Santer has drawn the short straw when it comes to the Euro-summit in Dublin early next month. The hapless European Commission president is locked into an official visit to Japan between September 30 and October 4.

That means a jet-lagged journey back across the world in order to ensure he arrives, bleary-eyed, for a meeting in Dublin which no one except President Jacques Chirac of France seems excited about.

Chirac loves back-slapping and intimate chats with his fellow EU leaders. But Santer, whose energy levels are variable, will hardly be in shape for a party. No wonder some eyebrows are being raised in Brussels about the amount of time he's spending in Japan – including stops in Tokyo, Osaka, and Kyoto.

In fairness, this is probably Santer's most important overseas trip since he took office more than 18 months ago; and the Japanese are the kind of hosts you do not turn down lightly. His main business is the fifth annual EU-Japan summit, but he also has meetings with emperor Akihito, a session with prime minister Ryutaro Hashimoto, as well as many with people from the political, business and academic worlds.

The Japanese are taking Santer's visit very seriously, sizing him up against his predecessor Jacques Delors, keen to know exactly how much clout he wields in Brussels. The answer is – more than most realise, but not enough to avoid being bumped on the Dublin schedule. Prime minister John Bruton of Ireland, who is accompanying Santer to the EU-Japan summit, was smarter.

He's leaving Japan on October 1 – no doubt citing a previous engagement.

Age before beauty

■ Attending Bertelsmann press conferences is a bit like watching the platform antics of an old-style communist party rally – you get clues as to who's in, who's out, from the jockeying of the acolytes around the big leader.

In previous years the German media giant's chief executive, Mark Wössner, has flanked himself with golden boy board members Michael Dornemann, head of entertainment, and Thomas Middelhoff, the man responsible for multimedia. Observers deduced that Bertelsmann's heart was with all things young and high-tech.

But it's all change this year; Wössner perhaps decided to take a closer look at the bottom line before arranging the seating order. At yesterday's annual results meeting on Wössner's left sat Gerd Schulte-Hillen, head of the newspaper and magazine subsidiary Gruner and Jahr – Bertelsmann's main profit generator. To his right was Siegfried Luther, chief financial officer. Dornemann and Middelhoff were relegated to the wings.

The order of speakers was also interesting. After Luther, it fell to Wössner's brother Frank to explain the successes of the book division – the second largest profit centre. Only after the heads of the magazine, printing and specialist publications strutted their stuff did Dornemann and Middelhoff get a look-in.

Open sesame

■ Jim Rohwer, a journalist turned banker who wrote a book about Asia's emerging middle class, has done a very un-middle class thing. The former *Economist* executive editor has quit his lucrative strategist role at CS First Boston in Hong Kong to join the young, thrusting publishing empire of Thai tycoon Sondhi Limthongkul – and taken a pay cut in the process.

But Rohwer is just following classic strategy – short term pain for long term gain. Sondhi, a man with big ideas, is a proponent of this philosophy: when he launched the daily business newspaper Asia Times last year he pledged a willingness to plough up to $80m of his own cash into it, such was his confidence of future returns.

Sondhi's media, broadcasting and telecoms octopus has many tentacles to tempt the likes of Rohwer, who for starters will focus on the mid-1997 relaunch of the monthly magazine *Asia Inc* as a bi-weekly. He's made another interesting appointment, that of Gary Knell, plucking him from the corporate affairs department of the Children's Television Workshop – a media company whose proudest contribution to global viewing is the programme Sesame Street.

Tasty morsel

■ What do employees in the 1990s – those lean and hungry survivors from waves of corporate downsizing – really want? A survey by Hays Accountancy Personnel in the UK finds that one in six would welcome subsidised membership of a sports club. But the single most popular perk is a staff biscuit tin, supported by three out of four employees.

So still hungry – if maybe not so lean.

The Financial Times

100 years ago

Exchanging Names
A jobber on the Stock Exchange was distinguishing himself yesterday by the eager way in which he offered Consols, on a rumour gaining ground that Sir Philip Currie, our Ambassador at Constantinople, had been assassinated. A leading broker on entering the House asked the jobber the cause of the excitement. "Sir Donald Currie has been shot," was the reply. The broker asked anxiously, "Sir Donald Currie! Who is he?". "I don't know" was the somewhat startling reply; "some big bug, I suppose." And the jobber was left shouting Consols down towards par with alarming energy.

50 years ago

Nationalisation
Yesterday's meetings of the Sheepbridge and Staveley Coal and Iron companies provided weighty objections to the Government's plans for the nationalisation – or something dangerously approaching it – of large parts of heavy industry. Nationalisation of the iron and steel industry, says Lord Aberconway, can be justified by proving that Government management is by its nature bound to be superior to private enterprise. However this proposition has no basis in fact as expressed in experience.

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IMF warns over Fed's reluctance to raise rates

Robert Chote in Washington

The US Federal Reserve will have to overcome its reluctance to raise interest rates soon if it wants to avoid a sharper and more disruptive tightening later, the International Monetary Fund warned yesterday.

Mr Michael Mussa, the Fund's chief economist, said that the Fed had not necessarily made a mistake by failing to raise rates on Tuesday, but that "the prudent course would be to have a slight firming of monetary conditions in the present circumstances".

In its latest World Economic Outlook, released yesterday, the Fund also argued that German interest rates may fall further. With European governments cutting budget deficits to meet the criteria for joining a single currency, it was important to use any room for manoeuvre to cut rates when this did not threaten to increase inflation.

The Fund said that prospects had improved for a pick-up in growth in Europe through the rest of this year. The European Union economies are expected to expand by 2.5 per cent next year, following a meagre 1.6 per cent growth in 1996.

Mr Mussa said the present level of interest rates in the UK was appropriate, but that they would have to rise if the pace of economic growth continued strengthening.

The Fund also warned that financial markets might react badly to significant tax cuts if they were to be announced in the British government's November's budget and repeated its recommendation that taxes should be raised or public spending plans cut.

Together with New Zealand, the UK was singled out as a country which had tackled its structural unemployment problem through labour market reforms.

The Fund warned that without further structural reform most European countries could not expect to reduce unemployment rates to below 8 or 9 per cent of the workforce without putting upward pressure on inflation.

In the wake of the Fed's unexpected decision to leave its interest rates unchanged, the Fund warned that economic activity in the US was "now again threatening to exceed the level of output consistent with low and stable inflation". Economic growth in the US is forecast to fall from 2.4 per cent this year to 2.3 per cent in 1997.

On Maastricht course, Page 4
Clarke warning, Page 8
Editorial Comment, Page 11

Yeltsin facing two month wait for operation

By Chrystia Freeland in Moscow

Russian President Boris Yeltsin's heart bypass surgery will be delayed for up to eight weeks, but the Kremlin leader's medical team said yesterday it was confident the operation would be a success.

The president's doctors, including Dr Michael DeBakey, the pioneer US cardiac surgeon, said the postponement was necessary to prepare the Russian leader's weakened heart and other organs for the operation.

The delay in the surgery, which Mr Yeltsin had initially said would take place by the end of this month, has sparked concerns in Russia and the west about the bed-ridden president's ability to control his quarrelling cabinet and rule the country.

However, Russian markets rallied on the news that surgery would take place and doctors' predictions that it was likely to restore the president's health almost fully.

Dr Renat Akchurin, the surgeon who will perform the operation, said that after the six- to eight-week preparation period, the president's chances of surviving the bypass were "close to 100 per cent".

Dr DeBakey, whose participation in the consultations is likely to add credibility to yesterday's announcement, shared that view.

There was "no reason why the president should not be restored to full normal activity" following a convalescence of six weeks to two months, he said.

However, even the sunniest predictions of his doctors mean it will be at least three months before Mr Yeltsin is able to return to a normal schedule.

The long absence of the president, who vanished from active politics at the end of June, is likely to bring a new period of political uncertainty.

Mr Yeltsin's frailty has already provoked bitter struggles within his administration. Yesterday Mr Alexander Lebed, the security chief, launched a fierce attack on the government.

In an interview in a Moscow newspaper the former general warned that the treasury's failure to pay soldiers' wages could spark a revolt. "An armed mutiny may take place this autumn," Mr Lebed said. "The government has buried its head in the sand . . ."

Mr Lebed's outburst is likely to be followed by further sparring between Russia's feuding interest groups, whose rivalry is expected to become more pronounced while Mr Yeltsin is out of action.

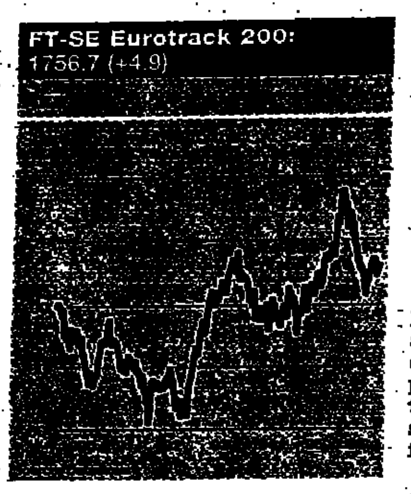
THE LEX COLUMN

Debit Lyonnais

Strong words from Brussels and fine words from the French finance ministry cannot disguise the substance of the latest developments in the long-running Crédit Lyonnais saga. A further FFr3.9bn of taxpayer's money is being pumped into the loss-making state bank, and a third bail-out plan is being discussed following earlier bungled efforts. The authorities' claims also look threadbare. The European Commission promises to get tough; the French government says it will privatise the bank as soon as possible. But they have said as much before, and failed to deliver. Why should now be different?

The blame starts with Crédit Lyonnais. The terms of the second bail-out may have been misconceived, but this cannot disguise the bank's paltry attempts to improve its profitability. Efforts to cut costs and shrink its operations have been feeble. Clearly the bank has failed to come to terms with its diminished status. Worse, its hubris appears to remain undented. It made no attempt yesterday to explain why it deserved further help.

The bank's delusions have been nourished by French governments too proud to allow a powerful national symbol to be cut down to size. The Commission's role has also been inglorious. Brussels now says future bail-out conditions will be "tougher than tough". But why only now? When it comes to state aid, the Commission appears to be no match for determined European Union member governments.



Bertelsmann

Having lost Europe's pay-television wars to Mr Leo Kirch and Mr Rupert Murdoch, Bertelsmann is now pretending they were not worth winning anyway. As an example of sour grapes, yesterday's comments by the German media giant's chief executive are hard to beat. Mr Mark Wössner poured scorn on his rivals' "gold-rush mentality", accusing them of investing billions of D-Marks into "hope" markets like digital pay-TV. "Business-type risk assessments seem to have lost all relevance," he said.

Well, maybe, but Bertelsmann is certainly not in a position to lecture others about low profitability. Though its traditional book and magazine publishing businesses seem to be OK, margins at BMG Entertainment, its music and TV division, are puny. Bertelsmann, like too many other continental European groups, does not actually reveal its profits on a divisional basis, but it did say that BMG accounted for roughly 20 per cent of operating profits. That implies profits of about DM300m, giving a meagre 3.5 per cent margin. Margins at EMI Music and PolyGram, its nearest European rivals, are 13 per cent.

True, BMG's results have been affected by start-up losses in some TV businesses, but it gives no clue as to how big these are. Anyway, they are most unlikely to alter the picture of glaring underperformance relative to its peers. Why does this persist? Presumably because Bertelsmann, which is controlled by a family trust, lacks effective shareholder discipline.

Axa

A 52 per cent jump in net income is a sparkling result by any standards. Of course, Axa's figures were flattered by investment gains and the inclusion of its new stake in Australia's National Mutual. But even stripping these out, net income grew by 35 per cent. And there were some very bright spots – a sharp improvement in Axa's French non-life business and a thumping 70 per cent jump in profits from US investment bank Donaldson Lufkin & Jenrette.

Sadly, though, profits cannot continue to grow at these sprightly rates. A more plausible estimate of medium-term earnings growth is Axa's own 15 per cent. Even this might stretch a group operating in relatively mature and competitive markets if it were not for some aggressive cost-cutting plans and National Mutual's access to fast-growing Asian markets. Part of the justification for the stock's fullish rating – 15 times next year's expected earnings and a material premium over net asset value – is the company's evident shareholder focus. Unlike its peers Axa publishes results under US accounting rules and is listed there. But investors should not be completely seduced. For all its Anglo-Saxon talk, Axa has a typically French ownership structure – big stakes held by sister mutual companies and Paribas, not to mention 8 per cent held by Axa itself – effectively protecting it from takeover. While these Byzantine arrangements persist, the shares are never likely to fulfil their potential.

Serious fraud

Mr George Staple's call for a change in the way complex UK fraud trials are prosecuted may make him look a poor loser. After all, the Serious Fraud Office, which he runs, has had a string of high-profile defeats. Most notably, last week it was prevented from pressing ahead with a second prosecution of Mr Kevin Maxwell, following his acquittal in January on charges of pension fund fraud. Some will say Mr Staple should improve the SFO's performance rather than seek to alter the rules of the game.

The SFO may, indeed, be able to improve its hit rate – though, with the exception of the biggest cases, it is not doing badly. But even if the SFO could do better within the existing system, that should not detract from Mr Staple's point. The Appeals Court in the Blue Arrow case encouraged the SFO to split complex cases into several trials. But following last week's ruling, it will be hard to bring a second trial when a first attempt has failed. The result is that the full evidence of criminality in such cases may not be presented.

What is to be done? Single long trials might be feasible, but they make unreasonable demands on jurors' time. An alternative would be for the most complex cases to be heard by a specialist tribunal. Abandoning the time-honoured practice of trial by lay juries is certainly not a move to be trifled with. But, given the importance of ensuring that complex frauds are appropriately punished, the idea certainly merits examination.

Additional Lex comment on TI/Senior, Page 18

$33m offer

Continued from Page 1

time it would strongly defend the action and launched its own damages claim against former management of the two companies. It is understood that in spite of yesterday's settlement the firm can still take action against third parties - including other auditors and some former directors.

Price Waterhouse Italy has offered L31bn to Montedison, and L20bn to Compart.

"Under the terms of the proposed settlement, Price Waterhouse does not accept any liability for the alleged negligence," the firm said in a statement. It is thought that the payment, if accepted, will be covered by Price Waterhouse Italy's insurance.

Mr Sergio Duca, senior partner of Price Waterhouse Italy, said the case was exceptionally complex and the firm had settled because of "the unacceptable burden on management time..., the continuing legal costs, the certainty of even higher costs if the cases went to court and the uncertainties of litigation". He described the settlement as "a reasonable solution, but one which should be considered a one-off".

Executives of Montedison and Ferfin resigned followed the 1993 shareholders' meeting, after which the new directors began litigation against former managers, auditors and the Ferruzzi family, which controlled the two companies.

Bundesbank firm on Emu proposals

By FT reporters

The Bundesbank yesterday said EU members which remained outside European monetary union should be denied access to Target, the proposed payments system for the euro, on the same terms as Emu members.

Mr Johann Wilhelm Gaddum, Bundesbank deputy president, named no countries, but his comments are bound to exacerbate the conflict between likely Emu members, such as Germany and France, which oppose unrestricted access to Target for non-members, and countries likely to stay out of monetary union such as the UK and Denmark.

In the German central bank's first public comment on the issue, Mr Gaddum said the argument that non-members of Emu should have access to the credit facilities of the future European central bank "contradicts the sovereignty of a currency zone which prevails and is recognised around the world".

In a speech on German capital markets, he added: "There is no country in the world in which non-members of a currency area have a right to participate in the money creation of a foreign currency area."

Mr Eddie George, governor of the Bank of England, warned this month that the dispute could undermine co-operation between European central banks and create an unnecessary split between Emu members and non-members.

The Bank of England refused to comment. However, Mr Tim Sweeney, director-general of the British Bankers' Association, said: "We see Target fundamentally as a single-market mechanism and therefore we do not see any reason why there should be any discrimination for those outside [the euro area]."

Germany and France want strict conditions attached to access to intra-day liquidity in the planned euro currency to prevent this spilling over into overnight credit. Central to the dispute is the fact that Target is not just a cross-border payments system but the route through which the European central bank will conduct monetary policy.

A UK Treasury spokesman said yesterday: "Discussions are continuing on Target. It is hoped that decisions will be reached by Christmas."

By Andrew Fisher in Frankfurt and Graham Bowley and William Lewis in London

Samuel Brittan, Page 10

Israeli troops in West Bank gun battle

Continued from Page 1

said. "But because there has been no progress in these negotiations by the Likud government the tunnel lit the fuse following weeks of frustration among Palestinians."

Mrs Ashrawi tried to visit the old city yesterday but was repeatedly turned back by Israeli troops.

Mr Ehud Olmert, the Likud mayor of Jerusalem, said the tunnel was designed to give tourists easier access to archaeological sites under the wall and boost the economy of the city.

But Mr Arafat said it represented an attempt by the Israelis to "Judaise" the city, an allegation Mr Olmert strongly denied.

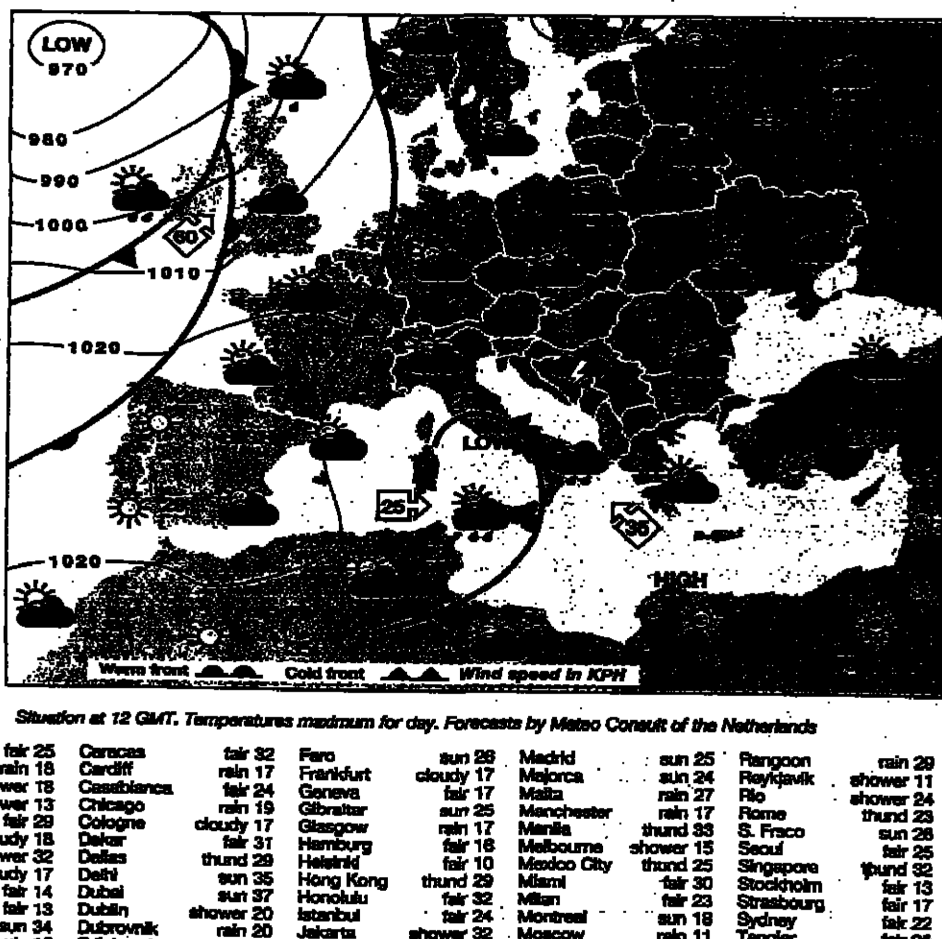
FT WEATHER GUIDE

Europe today

Southern France, Spain and Portugal will be fine and sunny. Southern Italy and the south-west Balkans will have some heavy rain. Greece and the south-east Mediterranean will stay dry and sunny. The Benelux, Germany and the Alps will be dry and cloudy. Eastern Europe will be cloudy with patches of rain. The UK will be wet and windy.

Five-day forecast

North-western Europe from the UK and the Benelux to western Scandinavia will be unsettled with heavy rain and near gale force winds at times. Spain, Portugal, southern France and Italy will be sunny. Greece will have torrential rain on Friday and Saturday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 25	Caracas	fair 32	Faro	sun 28	Madrid	sun 25	Rangoon	rain 29
	Celsius	Belfast	rain 18	Cardiff	rain 17	Frankfurt	cloudy 17	Majorca	sun 24	Reykjavik	shower 11
Abu Dhabi	sun 36	Belgrade	shower 18	Casablanca	fair 24	Geneva	fair 17	Malta	rain 27	Rio	shower 24
Accra	fair 28	Berlin	shower 13	Chicago	rain 19	Gibraltar	sun 25	Manchester	rain 17	Rome	thund 23
Algiers	fair 25	Bermuda	fair 29	Cologne	cloudy 17	Glasgow	rain 17	Manila	thund 33	S. Frsco	sun 28
Amsterdam	cloudy 18	Bogota	cloudy 18	Dakar	fair 31	Hamburg	fair 16	Melbourne	shower 15	Seoul	fair 25
Athens	sun 28	Bombay	shower 32	Dallas	thund 29	Helsinki	fair 10	Mexico City	thund 25	Singapore	thund 32
Atlanta	thund 30	Brussels	cloudy 17	Delhi	sun 35	Hong Kong	thund 29	Miami	fair 30	Stockholm	fair 13
B. Aires	fair 18	Budapest	fair 14	Dubai	sun 37	Honolulu	fair 32	Milan	fair 23	Strasbourg	fair 17
B.ham	rain 18	C.hagen	fair 13	Dublin	shower 20	Istanbul	fair 24	Montreal	sun 18	Sydney	fair 22
Bangkok	shower 32	Cairo	sun 34	Dubrovnik	rain 20	Jakarta	shower 32	Moscow	rain 11	Tangier	fair 26
Barcelona	sun 23	Cape Town	cloudy 15	Edinburgh	rain 17	Jersey	rain 18	Munich	cloudy 15	Tel Aviv	fair 33
						Karachi	fair 34	Nairobi	fair 29	Tokyo	thund 22
						Kuwait	sun 41	Naples	rain 22	Toronto	fair 19
						L. Angeles	sun 24	Nassau	fair 31	Vancouver	fair 18
						Las Palmas	fair 26	New York	sun 22	Venice	fair 19
						Lima	cloudy 20	Nice	sun 21	Vienna	fair 14
						Lisbon	sun 26	Nicosia	sun 31	Warsaw	rain 9
						London	cloudy 18	Oslo	cloudy 11	Washington	sun 24
						Lux.bourg	cloudy 16	Paris	fair 19	Wellington	fair 15
						Lyon	fair 18	Perth	shower 20	Winnipeg	cloudy 12
						Madeira	fair 24	Prague	shower 12	Zurich	fair 15

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RAIL PRIVATISATION

The sale is complete: it is time to deliver

One of Britain's most controversial privatisations is most of the way down the track, says Charles Batchelor. However, political uncertainty continues to cloud the issues

Still more romantic than catching an aeroplane - "We have inherited this wonderful thing from our Victorian ancestors which we have under-used and occasionally misused," says Robert Horton, Railtrack chairman. "We have to make the most of it."

One of the most unpopular privatisations of recent years, the break-up and sale of British Rail, has been *largely completed* after four years of acrimonious debate. Final completion of the sale of the remaining passenger franchises and of BR's international container business may take a further nine months but the deal is substantially done.

Railtrack, the company which has taken over BR's track, signalling and stations, was floated on the stock market in May; three rolling stock leasing companies have been sold to private buyers; and nine of the 25 passenger franchises have been let. Most of BR's freight activities have been sold and the 13 track maintenance and renewal companies are in private hands.

But hardly has the framework of the fragmented, privatised railway network been put in place than commercial pressures are starting to join the separate parts together again. Companies are starting to acquire portfolios of train operating franchises. National Express and CGEA of France have each bought two franchises, while *Stagecoach*, which owns one franchise, plans to acquire Porterbrook, one of the three rolling stock leasing companies, if the competition rules allow.

Robert Horton, the chairman of Railtrack

A sale dubbed by its many critics "a poll tax on wheels" – in reference to a previous government policy initiative which was scrapped due to its unpopularity – and "a privatisation too far", now has to show it can deliver an improved rail service. The performance of the new structure will be closely followed by governments and railway companies worldwide as they, too, look for ways of reducing the costs and improving the performance of their rail systems.

Britain is not the first country to break up its publicly-owned railway monolith. But it has taken the process further than any other, both in the degree of fragmentation and in the complexity of the contractual framework which has been put in place.

The Swedes were among [the] first to split track ownership from train operations, [b]ut the Dutch and the Ger[m]ans have also moved to fall [in] line with a European [Un]ion directive aimed at [enc]ouraging private compe[titio]n on the network. Rail[ways] around the world, in [Latin] America, New Zealand [and Ea]stern Europe, are also [being] turned over to private [operat]ors.

[In th]e UK, political uncer[tainty] continues to overhang [a]s a result of strong [prosp]ects of a Labour vic[tory i]n the general election, [whic]h must be held by May at the latest. Labour has [back]ed down from earlier [sugg]estions that it would [renat]ionalise the industry, [settin]g its sights on creating [a revi]talised British Rail, on [exten]ding the powers of the [regul]ator, and on channel[ling s]ubsidy – via Railtrack [– to] fund infrastructure [impro]vements.

[The]se proposals have been [critici]sed by the govern[ment] as lacking coherence [and it] is difficult to see how even this limited programme could be made to work alongside the commercial structure which has been *established. A Labour government's* hands would anyway be tied by the mass of contracts which have been put in place.

The hope of supporters of privatisation is that the new structure will improve services. They point to the airline, shipping and long-distance coach industries, where ownership of the different elements is spread among different organisations and "regulated" by means of commercial contracts.

It is too early to judge whether the privatised companies will bring in improvements, but the changes included in the first franchising agreements with train operators look promising. They are committing themselves in some cases to ordering rolling stock and to making improvements to stations. The marketing of rail services seems set to become more focused as the operators concentrate on their own geographical areas or market niches.

"We have evidence that [the commercial framework] is driving performance higher than the command structure of BR ever did," says Roger Salmon, franchising director. "Features which we did not expect – such as new rolling stock and the expansion of track capacity through London – are being delivered."

The franchising of passenger operations has brought several bus and shipping companies into the rail sector for the first time. Stagecoach, Prism and FirstBus, jointly with rail managers, have all acquired franchises. National Express has won two. Sea Containers, a ferry operator and container lessor, and CGEA, a French transport group, have also been successful.

Competition for the remaining *16 unsold* franchises is expected to remain strong. Several more bidders, including Virgin, the airline group and MTL, a bus company, are keen to break into the market, while some of those groups which have already been successful are known to want to broaden their portfolios.

But the key to the success of privatisation is likely to be Railtrack, owner of the track, signalling and stations. Railtrack has the ability to stifle or encourage more traffic on rail by the level of access charges it sets and its willingness to support new services. Its ability to maintain and expand the track network will also play a crucial role.

Robert Horton, Railtrack chairman, is enthusiastic about the potential of the network. "We have inherited this wonderful thing from our Victorian ancestors which we have under-used and occasionally misused," he says. "We have to make the most of it."

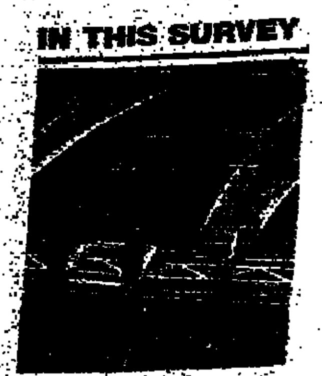
Mr Horton believes that the commercial pressures which have now been imposed on the railway will allow investments to be focused where they will deliver most benefits. This will trigger improvements more speedily than was possible under BR.

Mr Horton has announced his intention of reducing costs by putting pressure on the companies which carry out £1bn worth of maintenance and track renewal work each year. But some of Railtrack's customers are less convinced about the change in culture at Railtrack itself.

Freight operators in particular fear that they are not being treated seriously by the company because they only account for 10 per cent of total railway revenues. If the government really wants to get freight off road

● Turn to page 3.

IN THIS SURVEY



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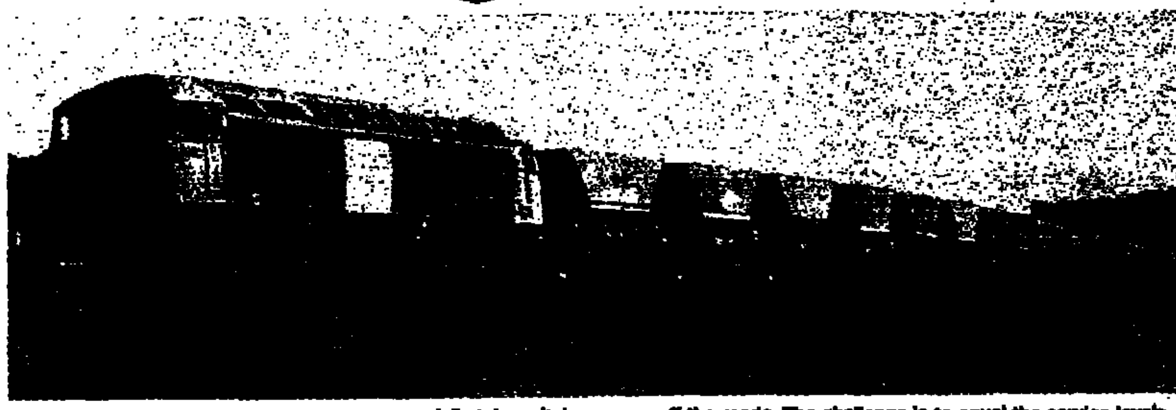
The freight business • by Charles Batchelor

Fears for the good, old option

Freight generates just 10 per cent of turnover, and there are concerns that it will be neglected



Moving freight by rail is eco-friendly, and potentially takes vital pressure off the roads. The challenge is to equal the service levels shippers have grown to take for granted from the road haulage sector

The sale of British Rail's freight businesses has brought its own particular problems. Many of the operations to be sold made significant losses but, unlike the passenger railway, there is little compensation available in the form of government subsidies.

Unlike the passenger operations, which are being franchised for periods of between seven and 15 years, the freight businesses are being sold outright. And unlike the passenger side of the railway, where "open access" has effectively been blocked for the first few years, new competition can enter the freight sector at any time.

Two companies, British Nuclear Fuels and National Power have already begun running their own trains.

Rail freight has undergone a steady decline since the early 1950s, when it accounted for more than half of all freight shipments, to around 7 per cent today. The construction of the UK motorway network and changing patterns of manufacture and distribution have led to a shift to road haulage.

In recent years the switch from coal-burning power stations to gas has accelerated the process. Rail shipments fell below 100m tonnes for the first time in 1994 from nearly 300m in the early 1950s.

With rail uneconomic for most journeys below 300 miles, there were relatively few goods movements to which it was applicable. The continental European freight railways have experienced similar declines, although they have the advantage of direct connections across Europe for long-distance shipments.

The UK was effectively cut off from this market until the opening in 1994 of the Channel tunnel. This has meant direct deliveries are now possible from factories in the Midlands and the north of England to Italy and Spain.

The relatively small scale of freight operations – they generate just 10 per cent of total railway turnover – has prompted concerns that they will be neglected in the privatised rail system. What the freight sector requires is suitable slots in the railway timetable and a reasonable level of track access charges. Railtrack insists it takes freight seriously but some freight users remain to be convinced.

The first of the freight businesses to be put up for sale was Freightliner, which moves containers between sea ports and inland road-rail terminals. However, it took two years to complete the sale because of the problems involved in striking a deal. The company was twice withdrawn from the market, and it was restructured to make it attractive to bidders.

It was finally acquired by a BR management team backed by two development capital groups, 3i and Electra, with a "sweetener" in the form of a £75m grant to meet its track access charges. Freightliner has reduced its losses in recent years, but it is still estimated to have made a loss of £20m on turnover of £90m last year.

The new management now plans to increase business volumes by 50 per cent over five years. The company moved 450,000 containers last year. It plans to increase its present fleet of 60 locomotives to 100 by acquiring more modern second-hand locomotives from BR.

Equally important is its decision to decentralise its management to create new profit centres at the five main ports from which it operates: Felixstowe, Southampton, Tilbury, Thamesport and Liverpool.

Freightliner has operated in a specialist niche, but there are signs that the distinctions imposed by BR are starting to break down following privatisation. Wisconsin Central Transportation, the US company which has acquired BR's Trainload Freight business, moving bulk loads of coal, steel and construction aggregates, is considering expanding into container movements.

The government originally split Trainload Freight into three separate companies. Mainline covered the south-east of England, Loadhaul the north and Transrail the west. The intention was to to create competition between the three regions.

However, it soon became clear that bidders such as Wisconsin were only interested in acquiring the entire business so the three companies were reunited. The main competition for rail comes from road haulage and not from other rail operators, the department of transport somewhat belatedly concluded.

Wisconsin paid £225m for the company and announced plans to develop new business, including single-wagon shipments which account for 80 per cent of its US operations. These were abandoned by BR because they could not be made profitable, although Transrail relaunched a single-wagon service.

It managed to keep costs down by hitching wagons to trains which were running anyway rather than operating dedicated services.

Wisconsin undoubtedly appealed to the government because it had previously acquired NZ Rail, the state-owned New Zealand railway operator, and made a success of running this business. It remains to be seen whether it can transfer its successful formula to the particular conditions of the UK market. Unlike the US, freight trains have to compete for space on a network primarily devoted to passenger journeys while average journey lengths are much shorter.

The first concrete proof of Wisconsin's expansion plans came with a order for up to 250 diesel-electric locomotives at a cost of £250m from General Motors of the US.

The sole remaining BR freight activity to be sold is its Railfreight Distribution business, which handles container, conventional wagon and automotive shipments through the Channel tunnel. The government announced in May that the company was to be sold, with the promise that several hundred millions of pounds worth of investments in locomotives, wagons and terminals would be written off.

Channel tunnel business is developing well, though it is still below early optimistic forecasts, but RfD has remained stubbornly loss-making. It currently makes a cash loss of £1m a week before interest charges, a figure almost equal to its annual turnover of £60m.

Despite the size of RfD's losses the government is confident it will find a buyer attracted by the long-term potential of developing international rail business. Possible bidders are thought to include Wisconsin; SNCF, the French railway; port operators; and shipping companies.

The new owners of Britain's freight railway are confident they can reverse its long-term decline, though this will involve tough action on costs, working practices and manning levels. The challenge is to provide a quality and reliability of service which shippers have come to take for granted from the road haulage sector.

PROFILE Great Western

Towards an empty M4 motorway

Scott aims to be the first ex-BR manager to steer his region to flotation

Brian Scott, MD of Great Western — Picture: Trevor Humphries

Great Western Holdings, the train operator serving south Wales and the west of England, could become one of the first rail franchises to seek a stock market flotation following this year's privatisation of Britain's railways.

The company, a management buy-out from British Rail's InterCity Great Western division, is considering a flotation to raise funds to invest in new facilities and improved rolling stock.

Brian Scott, Great Western's managing director, regards flotation "within two or three years" as the right route for a business regarded as a flagship among the 25 operating companies transferring to the private sector.

This would make the 58-year-old former booking clerk the first British Rail manager to steer his region from state ownership to a stock market listing as an independent company.

A flotation would also provide an exit for 3i, the venture capital group which backed the buy-out and owns 24.5 per cent of the shares. Of the remaining stock, 51 per cent is held by management and employees, while 24.5 per cent is held by FirstBus, the country's largest bus company.

Mr Scott admits, however, that Great Western will have to overcome a number of hurdles before being able to convince institutional investors it would be a good bet.

Firstly, it wants to persuade Roger Salmon, the franchising director, to extend its franchise from seven to 10 years in return for improvements such as more frequent services and refurbished trains.

Secondly, Mr Scott aims to build up a portfolio of franchises in other parts of the country before seeking a listing. As part of that effort, it is seeking the franchise for South Wales and West Railways – operating widely spread regional services to towns and cities from Brighton to Liverpool. But the main priority remains extending the franchise.

Mr Scott, who joined BR in 1958 and rose through the ranks to become director of InterCity Great Western in 1991, says the group has already embarked on a range of initiatives designed to convince Mr Salmon to grant it a longer tenure.

"We have been very quick on our feet in terms of new products," he says. They include dedicated business carriages called Business First, an experimental family carriage for adults with children and the reintroduction of motorail services.

It has, moreover, announced a two-stage £40m investment programme. The first stage involves a £10m upgrade of rolling stock with new interiors and a new green and ivory livery, aimed at recapturing the steam era when the GWR was nicknamed "God's Wonderful Railway".

But some critics believe the line needs more than cosmetic surgery. They argue that the group's fleet of diesel high-speed trains (HSTs) should be replaced rather than upgraded. Mr Scott concedes that the average age of each unit is 17 years, but maintains they have at least another 15 years of service in them.

"They are more reliable than any other diesel trains in the world and we are planning a re-engining programme that will make them as good as new."

If it succeeds in its negotiations with Mr Salmon, Great Western plans to spend a further £30m on new trains or adapting existing HSTs to operate as "half sets" – shorter four or five carriage units.

According to Mr Scott, truncated HSTs would enable the company to increase service frequency without increasing costs.

"Our strategy," he adds, "is to go for growth and empty the M4 [motorway]. It's about persuading people to leave the car at home."

In that drive it has increased the number of trains a day from 134 to 139, introduced slick airline-style customer services – at least for first class passengers – and shortened the journey times on some routes.

Some rail user groups have warned that quicker times have been achieved only at the cost of services from smaller stations. They want journey times cut by track improvements rather than by deleting some towns from the timetable.

Great Western claims to have compensated by introducing more shuttle services from stops such as Dawlish and Teignmouth to larger stations like Exeter.

More importantly, it has introduced more flexible working among its train crews in a ground-breaking agreement with Aslef, the drivers union.

In return for 50 voluntary redundancies, the drivers have voted two to one in favour of a package which will increase average earnings from about £16,500-£23,700 to up to £25,600. The deal includes a 37-hour week and increased mileage limits, enabling drivers to undertake longer journeys without requiring relief crews.

Mr Scott declines to put a figure on the cost of introducing the new pay and conditions, but says the reduced headcount will lead to "a bottom line benefit of more than £1m a year".

The employee deal reflects the pace of change sweeping through the company. Mr Scott says: "In BR days we spent 90 per cent of our time talking costs and only 10 per cent talking income. We are changing all that and the customers are seeing the benefits."

Tim Burt

PROFILE The West Coast main line

Whither the 'InterSloppy service'?

The pride of the network just a generation ago, the line is dilapidated today

Few issues raise the blood pressure of Midland businessmen more than the state of the West Coast main line. The tales of missed meetings, lost deals and delays are unceasingly told at gatherings as soon as discussions focus on the region's transport infrastructure.

The source of dismay is the InterCity route between the UK's second city, Birmingham, and London Euston – christened locally as the "InterSloppy service". Even without unscheduled delays, the 113-mile journey takes around an hour and 42 minutes.

In contrast, on the East Coast main line, it takes just five minutes more to travel the 189 miles between London and York. Further comparisons with the East Coast are unfavourable – while InterCity East Coast earned passenger revenues of £260m from [illegible] journeys last year, [illegible] West Coast earned £316m from 13m journeys.

Resentment over the line's performance came to a head during the recession. The 550-mile route links London with the West Midlands, the North West and Scotland, providing a vital connection between the UK's main industrial centres. Yet the decline of the 30-year-old line continued even as the manufacturing sector demanded better transport to help the recovery. The prospect of new connections with Europe via the Channel Tunnel added new impetus to calls for modernisation.

A generation ago, the line was the pride of the network after it had been modernised and electrified. But today the dilapidated state of the track, signalling and rolling stock combine to prevent trains from ever reaching their maximum speed of 110mph. Andrew Millward, of the West Midlands Business Focus Group, said: "All those businesses which need to travel to London regularly suffer greatly from the service in its current form."

Railtrack's answer to the long years of gripes, and the steady flow of traffic to the motorways and airlines, is a £1bn modernisation project announced last year.

The most ambitious element of the project is a new signalling system known as transmission-based in-cab signalling. The system will be the first of its kind in the UK, using digital radio to link drivers with a computerised control centre. By doing away with drivers' reliance on the old traffic light systems, Railtrack believes it can improve safety and reduce maintenance work while also increasing efficiency.

In theory, the system would allow more trains on the line by closing the distance between trains, as well as helping to stop buffer collision and the signalling problems caused by bad weather. The new signalling would also go some way to addressing passenger frustration, by providing better information to those in trains and on platforms.

Two consortia of companies have initially been awarded the contracts for development work on the £500m signalling scheme – one including GEC Alsthom and Siemens, the other including ABB-Daimler Benz (Adtranz) and Westinghouse Signals.

Railtrack is the first to admit these core modernisations will not improve the speed of trains, but merely the performance of the track. Campaigners have demanded more ambitious plans to adapt the line and widen bridges for tilting trains at higher speeds of up to 160mph.

Railtrack argues these changes would be prohibitively costly and could only go ahead if they were funded by the 19 new train operating companies which use the line. Similarly, the private sector would also have to fund the necessary work for a "piggy-back" freight link which could carry lorry trailers on freight wagons along the length of the country and into Europe.

However the financing for full modernisation – which would be the second largest project of its kind after the Channel Tunnel itself – has been thrown into confusion by the government's privatisation strategy. Ironically, the scale and delays of the modernisation project have had a similar impact on the privatisation plans.

The franchise for InterCity West Coast was originally planned as one of the first privatisations, but is now pencilled in for later this year. Tenders are likely to be invited in the autumn, with privatised services beginning in the spring of next year if all goes to plan.

The rail industry, however, is fully aware that those plans could be torn up by the outcome of the general election. Labour has consistently pledged to keep the service in the public sector – as long as it has not already been privatised. According to the office of passenger rail franchising, the franchise for InterCity West Coast must simply wait until fuller details are known about the upgrading of the line itself.

One glimmer of hope over improved services – at least between London and the Midlands – came last month when the management of Chiltern Railways won the seven-year franchise for the company and promised to order new diesel express trains. The new company, M40 trains, is planning to run a rival and more reliable service between Birmingham and London Marylebone.

Businesses remain concerned that the time-scale for the modernisation has yet to be fixed. Many fear the project will be subjected to delays, as long as Railtrack estimates a fluid time-scale of between ten and 12 years to complete the modernisation. The signalling scheme could also be a source of delay as the technology has yet to be tested on such a huge scale.

Andrew Millward, of the West Midlands Business Focus Group, said: "We are concerned that the government has agreed for at least two years that this is an important project which needs to begin as soon as possible. The government told us categorically that work would begin in the summer of 1995, but here we are in the summer of 1996 and nothing has happened. There is still a lot of uncertainty ahead."

Richard Wolffe

PROFILE John Swift

The man charged with putting the UK on track

A regulator's job is nothing if not varied. John Swift, QC, the former competition lawyer who has been regulator of the rail industry for the past 2½ years, has become involved in a range of issues, from the obviously important to the apparently minor.

In between creating a framework for track access agreements and a mechanism for ensuring a fair return to Railtrack, for instance, he has intervened to make a pensioners' holiday outing easier, and helped establish a code for special excursion trains.

The pensioners in question were threatened with having to change trains halfway through their journey because the train operating company took the view its insurance did not cover it to carry them the whole length of their trip.

This piece of railway bureaucracy was sorted out when Mr Swift's office established that British Rail's blanket indemnity would cover the journey.

"It is important that we are not just seen as intervening on 'big issues' but that we can be seen as the passengers' friend," says Mr Swift. "The new system has to be seen as accommodating what passengers want and what they have become used to."

Mr Swift, who is 56, has a better chance than most of the regulators appointed to privatised industries to put his stamp on the railway and ensure that sensible systems are in place. Uniquely in the government's hectic privatisation programme, rail was provided with a regulator before the industry was sold off, so Mr Swift has had a hand in creating the new structure.

"The new rules are in place," he says. "They expect higher standards of performance from the operators involved. Some will be difficult to achieve, but they should not be impossible."

Mr Swift's appointment to the job of setting the competition rules represents a change of sides for a man who, during 25 years at the bar, had defended many clients against charges of anti-competitive behaviour.

Following two years of preparation after the formal break-up of BR in April 1994 and the sale of most of the businesses which made up the nationalised rail network, the rail industry is now moving into a second phase, says Mr Swift.

"In phase two we will be out there making sure that the industry works together to provide a better railway. The private sector must use the new rule-based system to bring benefits to passengers and other users," he says.

Mr Swift says he does not expect overnight improvements following the enormous upheaval the railway has been through. It will take time for the new investment which privatisation is designed to stimulate to come through, and for the commercial management techniques which are being introduced to take effect.

And although he is convinced the present rule book will deliver the desired benefits, he acknowledges that some adjustments will probably be necessary.

"The rules are not cast in stone. There is a provision to review them in two years."

One important area which has proved particularly troublesome is the issue of the impartial sale of tickets by the competing train operating companies.

The publication in July of the results of a Consumers' Association survey of ticket sales revealed that customers were not being quoted the cheapest ticket in most instances. This was particularly worrying because a previous survey, with similar results, had led to promises of improvements.

Mr Swift acknowledges concern at the findings of the association's survey, though his own office's inquiries have shown a smaller number of incorrect responses to passenger inquiries. But he recently consulted the train operators and others involved in ticket sales to see how improvements could be made.

"We are testing the workings of the current system," he says. "We want to try and work out the details of what is practicable and sensible." In theory train operators have an incentive to sell the tickets of other companies because they earn a commission but the temptation to earn even more by selling their own tickets is strong.

Mr Swift expects to issue a policy statement covering impartial retailing within the next few months.

The sensitivity of much that happens on the railway was brought home in early 1995 when Mr Swift published a consultation document on ticket sales which included the option of restricting the full range of tickets to fewer than 300 stations.

This prompted a wave of public anger, a political storm and, a few months later, a decision to maintain existing ticket selling arrangements.

At present the regulator is obliged to take into account the guidance of the transport secretary, though this requirement ends on December 31. In fact, says Mr Swift, the government has not intervened but has left him free to create a structure which should lead to an increase in railway travel. Just how successful he has been will start to become clear over the next few months.

Charles Batchelor

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■ **Rolling stock leasing companies** • by Geoff Dyer

A business of no guarantees

The potential profitability of roscos is shrouded in uncertainty

When the government transferred the three British Rail rolling stock companies to the private sector in January, it was probably the least controversial part of the rail privatisation process.

The Labour Party, which fought tooth and nail to stifle the flotation of Railtrack and the sale of the passenger franchises, even claimed to have invented the idea of separate rail leasing companies (roscos).

However this bipartisan spirit evaporated in August, when Stagecoach, the rapidly expanding bus and rail group, acquired Porterbrook, one of the roscos, for £825m.

The sale caused a political furore, as the management team that bought Porterbrook had only paid the government £527m for it. Labour threatened to impose a windfall tax on the rail industry if elected, after it was revealed that 49 former BR managers stood to make a £84m profit from the deal.

Although the value of the company had risen by nearly £300m in its eight months in the private sector, most analysts reckoned Stagecoach had picked up a bargain, which fuelled the allegations of public assets being sold on the cheap.

Stagecoach's shares soared 60½p to 542½p on the day it outlined the deal, in spite of the large rights issue that was unveiled to finance it and fears that it might be vetoed by the government.

For the government the £1.8bn sale of the roscos was a means of creating new ways of getting private sector funding for the railways, freeing it from the limitations of the annual public sector finance round.

It would also exempt the train operating companies from the burden of buying – and maintaining – their own fleets of rolling stock.

Sir George Young, secretary of state for transport, said at the time: "Leasing has revolutionised the financing of our airlines. It is now set to do the same for our railways. From today we can expect open and imaginative competition to finance further investment in Britain's railways."

British Rail's fleet of 11,000 locomotives and carriages was split into three companies in April 1994: Porterbrook; Eversholt, which was also bought by its management for £580m; and Angel, which was acquired for £672.5m by a consortium including Prideaux Associates, Babcock Brown, a leasing and asset finance group, and Nomura International, the investment banking arm of Nomura Securities.

A total of 300 companies were approached by the government to buy the roscos, including Stagecoach, which failed with a bid for Angel in partnership with the company's management.

The roscos have leased the rolling stock, which has an average life of 17 years, to the 25 train operating companies for between four and five years. They are expected to finance new fleet when the operators begin placing orders.

But in spite of the up-beat market reaction to the Stagecoach deal, the potential profitability of the roscos is shrouded in uncertainty. Stagecoach is entering uncharted territory.

For a start there are no guarantees about the level of orders that the operating companies will place, although the incentive is certainly there.

The operators need to boost revenues by attracting more passengers and the experience of the Chiltern line shows that passenger numbers have increased by 60 per cent in the three years since it was modernised.

Porterbrook is the only rosco to have secured a new order for trains since privatisation, with a £34m leasing deal from Chiltern Railways in September. However industry executives predict that a number of other orders will follow before Christmas.

And when the existing leases run out, the roscos will not have the market to themselves, but will have to compete with a whole range of potential rivals.

Rosco executives recognise that rolling stock manufacturers, such as ABB and General Electric, could try and get into the leasing market in which they have some experience.

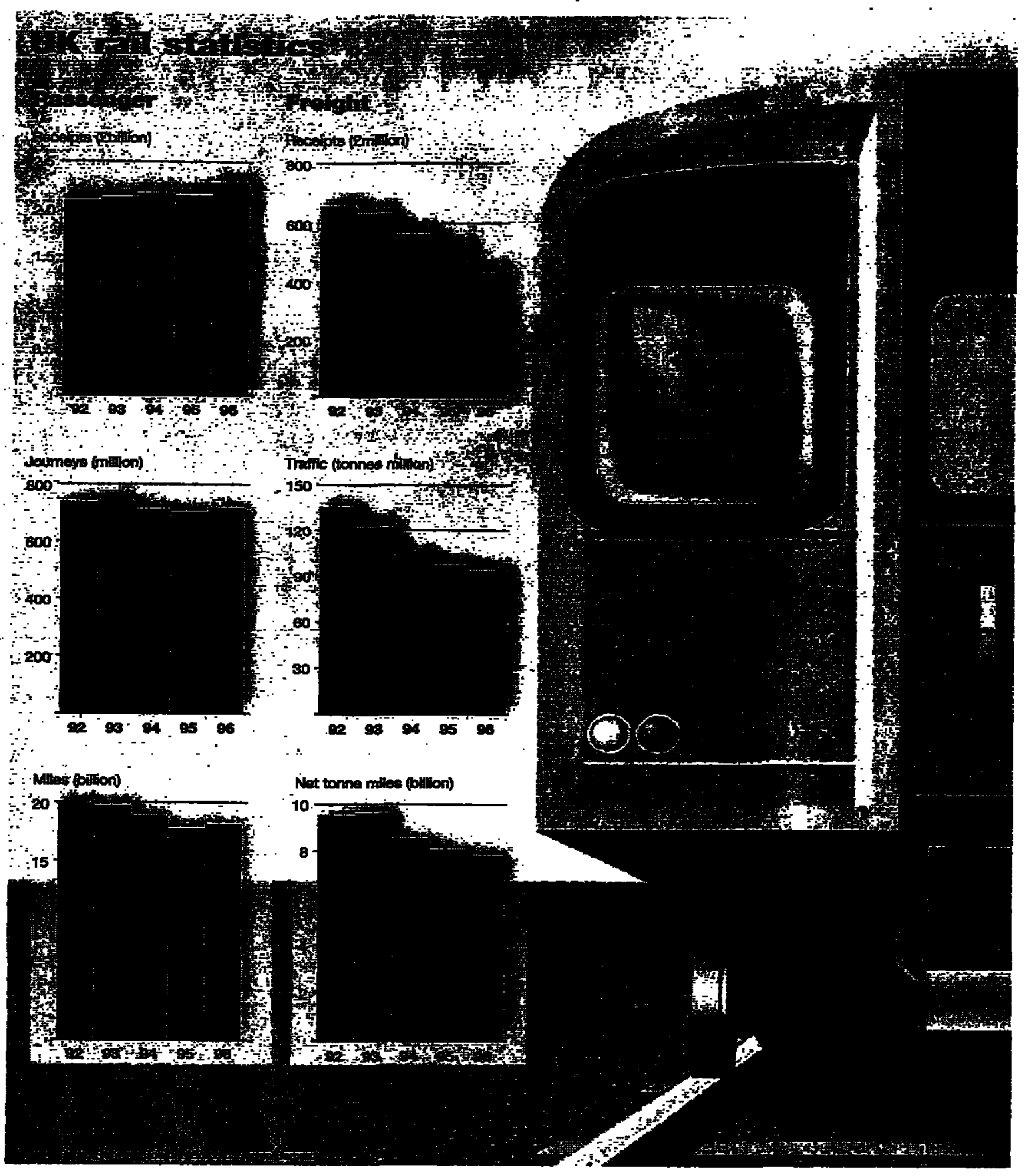
However Sandy Anderson, managing director of Porterbrook, is confident about the prospects.

"I have made my living from leasing for the last 20 years and I hope to do so for another 20," says Mr Anderson, who formerly was managing director of TIP UK, the trailer leasing company.

The roscos are more skilled than most competitors are at providing financial packages for leasing customers, he claims. "As long as we are intelligent and innovative, the market will be there," he says.

Another question mark over the roscos concerns the savings they will be able to achieve on maintenance. The government has set them a target of reducing maintenance costs by 3 per cent a year, leading to savings of £400m over eight to ten years, according to Hambros Bank, which advised the government on the rosco sales.

Mr David Banks, an adviser to Angel, admits that the targets are tough, but argues that savings can be made, in part by making more efficient use of depots, and also by rescheduling maintenance work, for instance.



Stagecoach believes that Porterbrook's spending on maintenance can be reduced by 30 per cent, partly through the bulk purchase of components, such as gearboxes, which are shared by the group's buses and trains.

The widely predicted change to a Labour government could also present problems. The party has been at pains to refute suggestions that it would get rid of the roscos. However Labour is considering giving powers to the rail regulator, who has imposed investment requirements for Railtrack, to oversee the leasing companies as well.

Stagecoach, meanwhile, still has to win the approval of the regulatory authorities for the Porterbrook deal. The rail regulator has collected responses from interested parties on the takeover, which he said raised public interest issues related to future investment and competition in both rolling stock and passenger services.

The regulator is to report to the Office of Fair Trading, which investigates possible anti-competitive behaviour, and which will in turn advise the Department of Trade and Industry on whether a monopolies investigation is necessary.

If the deal is approved, then it is possible that the other roscos will become takeover targets.

However, the political controversy surrounding the roscos might not be over yet.

Time to deliver

● Continued from page 1

and on to rail it must insist, through the offices of the rail regulator, Mr John Swift, that Railtrack offers a better deal, they say.

The freight companies complain that Railtrack is inflexible in its approach to track access charges. Companies seeking to develop new freight sidings or connections across Railtrack land say that Railtrack is slow to spot opportunities and quick to charge a lot for them when it does realise the potential of a deal.

The three rolling stock leasing companies (roscos) which inherited BR's 11,000 locomotives and carriages have also caused some concern among other operators. They question whether there is enough incentive for the roscos to offer attractive leasing deals and to introduce new rolling stock.

Competition for the roscos seems set to emerge from among the rolling stock manufacturers which are keen to strike direct deals with the train operators. The roscos have the benefit of long-term leasing contracts signed to make them more saleable to the private sector but as these run out, they may face a tough battle to retain their market share.

The uncertainties caused by the BR break-up led to a gap of nearly three years in the placing of new rolling stock orders and forced manufacturers to trim their workforces and close factories. This damaging hiatus came to an end earlier this month when Chiltern Railways ordered 12 air-conditioned, diesel-powered carriages from ABB-Daimler Benz Transportation (Adtranz) but there is still a long way to go.

The government's success in selling off the network on such a tight timetable has surprised many observers. But privatisation still has everything to prove. Senior rail managers expect it to take at least another 12-24 months before real improvements start to show. Meanwhile, the prospect of an election within the next 10 months means political considerations will continue to cloud the picture.

■ **Manufacturers** • by Charles Batchelor

Reinventing rolling stock

Suppliers are having to deal with far-reaching changes in the way markets work

Britain's rolling stock manufacturers have had a tough three years. Uncertainties surrounding privatisation led to a drying up of new orders and a swathe of factory closures and redundancy programmes.

The first order since privatisation was placed earlier this month by M40 Trains, the management buy-out team which won the franchise for Chiltern Railway. This was a welcome signal that industry confidence is beginning to return.

However, the deal, for 12 diesel-powered coaches to be built by ABB-Daimler Benz Transportation (Adtranz), is valued at just £34m and will need to be followed by more substantial contracts if the industry, even in its present slimmed-down form, is to recover.

The British train manufacturers have suffered more than most because of the speed with which privatisation has been pushed through, and the radical nature of the restructuring of the UK railway industry. But rolling stock suppliers throughout Europe and beyond are having to come to terms with far-reaching changes in the way their markets work.

The large state-owned monopolies which have provided rail services in Europe are gradually being dismantled to make way for a more fragmented market. The new commercial buyers of rolling stock will place a higher premium on value-for-money from their trains, and are likely to be less interested in engineering refinements than their state-owned predecessors.

The train manufacturers have responded to this fragmentation among their customers with a series of mergers. GEC of the UK and Alcatel Alsthom put their transport divisions together and, more recently, ABB and Daimler Benz merged their activities. Siemens has not gone for a full-scale merger but it has set up a joint marketing operation with GEC-Alsthom to promote the two companies' high speed trains outside Europe and North America.

The manufacturers have also made use of the lull in UK orders to develop standardised carriages which can be used on a wider range of services and which will have a higher resale or residual value when the relatively short-term franchises change hands. The manufacturers have been developing basic body shells which allow variations in window position and the configuration of seats.

Under the new railway regime created by privatisation, train operating companies lease their locomotives and carriages from one of the three rolling stock companies which inherited BR's train fleet. The operators are at liberty to strike direct leasing deals with the manufacturers or even to buy new trains outright, but the rolling stock leasing groups, or roscos, are strongly placed to dominate the market.

> The train operators will want vehicles which meet their needs – while the roscos will want equipment which will appeal to other operators when franchises end

The new railway structure will mean new train orders will be placed by the operators and the roscos acting in concert.

The train operators will want vehicles which meet their needs while the roscos will want equipment which will appeal to other operators when franchises end.

Although only one firm order has been placed for new rolling stock so far, a number of the companies which have acquired rail franchises have given commitments, as a conditions of their contracts, that they will refurbish their fleets or buy new rolling stock.

Prism Rail, the new operator of the London, Tilbury & Southend line, is to refurbish one-third of its fleet over the next nine months and replace the remainder with new trains by 1999. The National Express coach group, meanwhile, has invited manufacturers to bid to supply new air-conditioned diesel trains for its Midland Main Line routes.

In the bus industry in London, which, unlike the rest of the country, is still subject to regulation, new operators began by providing refurbished buses when bidding for routes but later moved to supplying new ones. New buses are now essential if a company is to win tenders.

However, new equipment is expensive, and while attention in the rail industry has focused on the resumption of new train orders, refurbishment may be the pattern for many of the train operating companies.

A proposal to modernise up to 2,000 ageing commuter trains for a quarter of the cost of new ones was launched last July by Adtranz, and work has since begun, in tandem with Angel Train Contracts, on developing a prototype.

The idea is to take 25-year old "slam door" trains, replace their steel body shells with aluminium ones, and install electrically operated doors controlled by the driver. Rail travellers would have a smoother, safer ride, while train operators could afford to upgrade their fleets, according to Mr Stig Svärd, chief executive of Adtranz.

The refurbished trains would have crumple zones to absorb the impact of a crash and anti-climb devices to prevent carriages riding up and slicing through each other as can happen on some of the older rolling stock. The original wheels and underframes of the carriages would be retained, but they would be given an extra 15 years of useful life by the upgrading.

With the exception of the purpose-built high-speed rail link between the Channel tunnel and London, there are no plans for high speed services in the UK on the lines of the French *trains à grande vitesse* (TGV). The cost of building new lines and the distribution of population, which makes for frequent stops, both militate against a British TGV.

However, higher speeds on conventional track can be provided by tilting trains, developed by British Rail in the late 1960s and 1970s, but abandoned in 1981 after technical problems overwhelmed the project. Tilt technology has since made great strides and tilting trains are now in regular service in Italy, Sweden and Germany and are being looked at by many other countries.

Proposals for tilting train adapted to UK conditions were launched earlier this month by Adtranz. These trains, based on technology tested in Sweden and Germany, would be built at the company's Derby works.

Several train operators, including Great Western and InterCity East Coast have expressed an interest in tilting trains.

Attention has focused on the rolling stock needs of the passenger railway but the freight sector also has much elderly equipment. Wisconsin Central Transportation, the US owner of BR's heavy freight operations, now renamed English Welsh & Scottish Railway, has ordered up to 250 freight locomotives for around £250m from General Motors of the US.

This was a blow for European manufacturers, although it was not entirely surprising given US expertise in making freight locomotives and Wisconsin's US parentage. GM locomotives had already proved themselves in the UK, moving coal and building aggregates for National Power and Mendip Rail respectively.

Few would deny the need for the replacement or modernisation of large parts of the train fleet inherited by the private sector operators from British Rail. Even before the three-year gap in new orders, much equipment was nearing the end of its useful life.

Privatisation was intended to bring new capital into the railway and to provide the means to renew worn-out assets. The first signs of a revival are becoming visible but there is still a very long way to go.

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4 RAIL PRIVATISATION

■ **Railtrack** • by John Kingman

Wide disagreement on prospects

Investors are nervous of Labour's plans should it win the next election

The centrepiece of Britain's rail privatisation programme – the flotation of Railtrack, the monopoly infrastructure owner – was always supposed to be kept until last.

Until all the passenger franchises had been let, the logic ran, investors would be unable to form a clear view of Railtrack's customer base. Only then could the company's 10,000 miles of track – and 40,000 bridges, viaducts and tunnels – finally be sold.

That, at any rate, was the assumption. In the end it was turned on its head: Railtrack was successfully floated at the end of May, raising £1.9bn.

The fact that many of the infrastructure company's customers remained in the public sector hardly featured on investors' list of worries. Instead, right at the top of the list was the Labour party's aggressive opposition to the sale.

The worst fear – that a Labour government might actually threaten to renationalise the company – never materialised. Nonetheless, the detailed regulatory plans from Labour's then transport spokesman Clare Short were enough to give investors cause for worry.

At the heart of Labour's plans was a proposal to bring the rail regulator, John Swift, under closer political control. Since the regulator has extensive powers – over Railtrack's charges, its investment programme and its ability to hand cash back to investors – this would be a controversial move. It would make the post different from the regulators of other privatised industries, whose independence is closely guarded. Nonetheless, Labour argued, in this case "matters of public policy are properly the concern of an elected government".

In particular, Labour hopes to cut charges for access to the network, to encourage more intensive use of the system. Nonetheless, this may amount to a long-term objective rather than an immediate worry. "There is no question", Ms Short reassured investors at the time, "of existing contracts being cancelled against the wishes of parties to them".

But weighing up the potential risks posed by a Labour government was not the only judgment investors had to make. Even without the Labour threat, there is wide disagreement over the company's prospects.

At one extreme, some see the stock as a dull utility; something close to a bond. They point to the company's unexciting revenue growth prospects. Even if, as some hope, privatisation does boost usage of the rail network, this would still be slow to feed through to Railtrack's income, most of which is already fixed under long-term contracts with franchisees.

Moreover, to keep its revenues secure, Railtrack has to keep its performance up to scratch. Under its contracts with franchisees, a complex "performance regime" entitles train operators to substantial payments if the service Railtrack provides is poor.

Railtrack can, of course, boost its revenues by making better use of its extensive property portfolio. But although this should be a useful additional income source, most analysts expect it to have only a relatively marginal impact on profits.

In addition, some worry that Railtrack's scope for cutting costs is limited: a high proportion is fixed under contracts with separately privatised infrastructure maintenance companies.

But over time, the share price has blossomed as a more optimistic school of thought has tended to prevail. Labour's Clare Short has been replaced by the less mercurial Andrew Smith.

Meanwhile investors have tended to look back more to the heartening experience of previous British privatisations, where businesses with apparently uninspiring prospects have still proved sparkling stock market successes. However dull the underlying businesses looked, cost-cutting has often generated formidable cash flow growth. Meanwhile by gearing up unstretched balance sheets, many privatised companies have been able to throw off lavish sums to their shareholders.

For investors, the hope is that Railtrack may be no different. Certainly many hope it will be able to cut substantial amounts out of its costs.

Even though the bulk of maintenance work is contracted out, Railtrack stands to benefit from lower costs in the separately privatised infrastructure units when its contracts come up for renewal. Some are even hopeful that the contracts may be renegotiated early.

Meanwhile the company may well be able to trim its own staff numbers. It still employs 11,400 people, of whom 3,000 are described as "executives and management".

A further hope is that the company may be able to make savings on its capital and infrastructure costs. Railtrack's profit and loss account, for instance, is heavily laden with a big "asset maintenance provision" for regular work keeping up the network. Last year this amounted to £483m, yet only £333m was actually spent. If Railtrack can cut these costs, the boost to profits could be substantial.

Another lesson of previous privatisations is that, where businesses have been sold with low levels of debt, investors can benefit handsomely from strong dividend growth – as well as one-off benefits such as special dividends and share buy-backs – as companies put their capital structures in order.

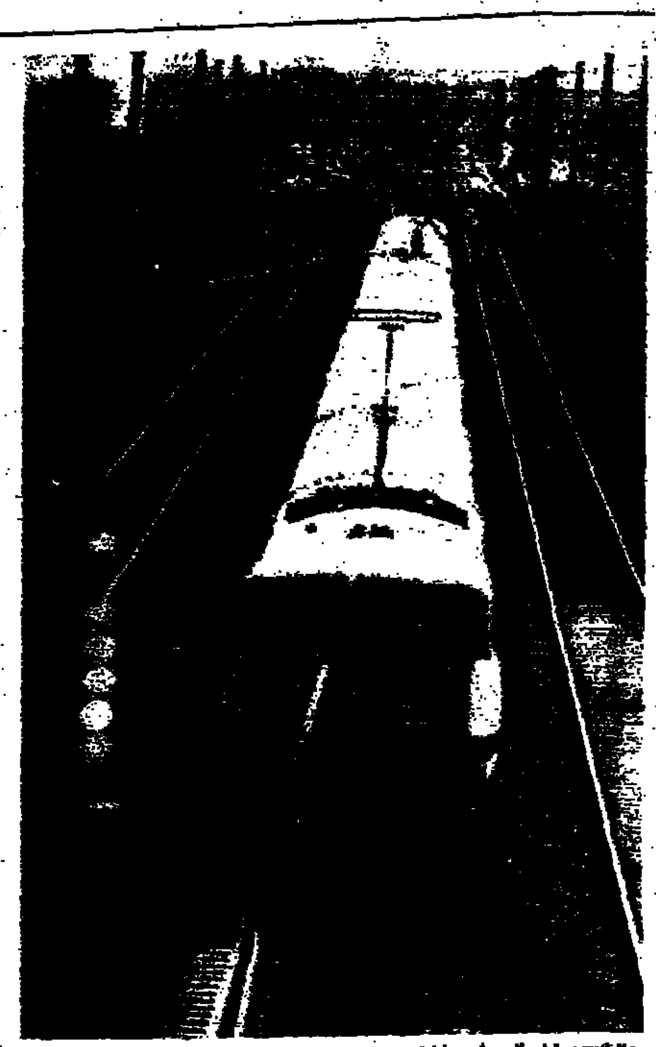
For utility businesses as secure as Railtrack, the stock market is becoming increasingly tolerant of higher levels of gearing. As utilities have tightened their capital structures, the flow of cash to investors has been very substantial.

To some extent, the government has already learned this lesson. Railtrack's £600m of debt is a tougher outcome than many previous privatisations – especially since the company is planning an investment programme, including the £600m Thameslink project.

Nonetheless, the pressure on the company's balance sheet could have been greater. In a tense battle with the government, Railtrack managed to extract a large debt write-off – enough, in a full year, to cut its interest charge from £117m to £35m, a modest figure in the context of the company's £650m annual operating cash flow.

As a result, some hope the company will at some point be able to follow other utilities and consider making a large cash hand-out to shareholders. In view of the Labour party's concerns, however, such a move could be intensely politically controversial.

This complication encapsulates the company's broader dilemma. Few doubt there is plenty of scope for Railtrack to produce generous returns to its shareholders. But in doing so, it has to manage a delicate balancing-act: the better the returns for investors, the more exposed the company is likely to be under a future Labour government.



This is one privatisation many thought would be derailed by public criticism - but it remained on track

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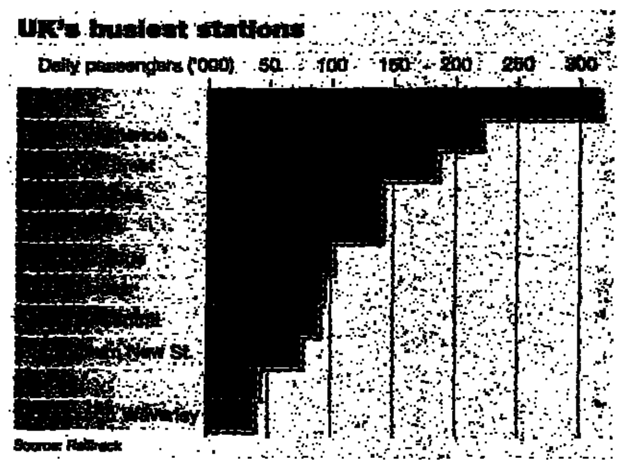

PROFILE Roger Salmon

The man who proved them wrong

In the beginning, consensus was that privatisation could not and would not work

Roger Salmon, the franchising director in charge of finding buyers for British Rail's passenger train operating businesses, has one of the most high-profile jobs on the new railway.

Political attacks on the rail sale have understandably focused on the part of the railway which most directly affects the largest number of people. For a man not entirely comfortable with standing in the public spotlight, he has handled this task with some skill.

There have been embarrassments, though none so grave as seriously to delay the process. A successful court challenge by the Save Our Railways group appeared to confirm Mr Salmon was being unduly cavalier with minimum service levels and obliged Sir George Young, transport secretary, to rewrite the government's guidance on this issue.

Mr Salmon's own surprise announcement in April that he planned to step down in October, two years before the end of his five-year contract, betrayed a lack of political sensitivity. Mr Salmon, aged 49 and formerly a merchant banker with NM Rothschild, may have been justified in taking the view that the template for franchise sales was in place and his task was accomplished. But at that time only four of the 25 franchises had been sold, and the stock market flotation of Railtrack was only weeks away.

Officials involved in rail privatisation attributed this move to a combination of the pressures of the job and an impatient streak in Mr Salmon. A man of quick intelligence who is independently wealthy, he saw no need to stay once – in his eyes at least – the job was done.

He is to be succeeded next month by John O'Brien, currently chief operating officer in the Office of the Franchising Director. Mr O'Brien, who is 44, has been appointed for the next three years. A chartered accountant by training, he spent 11 years with Granada Group, the leisure and entertainments company, from 1981 to 1992.

It is true that the momentum of franchising has increased over the past three months. Once the framework for sales had been established, the franchising office was able to churn out deals at an ever faster pace. The award of the South Eastern franchise to the French Compagnie Generale des Eaux last month brought the number in the private sector to nine. Information memoranda have been produced for all 25 and invitations to tender sent out for 14.

What has been remarkable is that, as the pace of franchising sales has speeded up, Mr Salmon's department has been able to strike ever better deals. The management team which was successful in bidding to run the Chiltern Railways company has committed itself to introducing new trains despite only holding a seven year franchise. "It is a fabulous list of features on the Chiltern franchise," says Mr Salmon. "We have got new trains, station improvements, larger car parks and facilities for cyclists.

"In 1993, when we started work, the consensus in most of the rail industry and in the country was that it could not work, would not work and if it did it would cost a fortune. It was an enormous challenge to create a structure which makes commercial sense and which will deliver good businesses to potential buyers. I think we have done that and we have done it at the top end of expectations."

Among the key agreements which have been signed are those guaranteeing through ticketing and interavailability – so travellers can cross the boundaries of the different train operators without impediment, and each company will accept the tickets of others.

Controls have been slapped on commuter and other fares where rail enjoys an effective monopoly and a performance regime has been put in place to ensure that the train operators and Railtrack are penalised for poor performance and rewarded for good.

"We have evidence that this is driving performance higher than the command structure of BR ever did," says Mr Salmon. Over the past two months the franchising office has paid out premiums to the train operators because their services have been more reliable than expected, although Mr Salmon acknowledges that in spring and early summer the railways usually benefits from favourable weather conditions.

There is every prospect that Mr Salmon's officials will be able to negotiate even better deals from franchise bidders over the next few months. Those which have yet to win a franchise will be keener than ever to gain a foothold, while some of those which have been successful already are known to want to extend their rail portfolios.

Commitments to provide new trains and make station and timetable improvements seem set to become standard, even on the shorter franchises.

If Mr Salmon and Mr O'Brien succeed in selling off the remaining franchises before the next election, then the task of the franchising office will change. It will then be primarily engaged in monitoring franchises to ensure that the agreed contracts are kept to.

It will be six years before the first one comes up for resale, although the possibility of mergers between franchise holders could keep officials busy. But if Labour wins the next election, prospects for an independent franchising office look dim. Labour has promised the area will come under the direct control of the transport secretary. (See "Wide disagreement", above.)

Charles Batchelor

Roger Salmon, franchising director

Picture: Fergus Wilde

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Private finance initiative	Friday October 18
The Netherlands: European business hub	Monday October 21
Warehousing and distributing	Friday November 8
Hampshire and its cities	Monday November 11
Sheffield	Tuesday November 12
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Water industry '96	Tuesday November 26
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THE CHEMICALS INDUSTRY

Contrary views that rarely meet

A discriminating public and discerning policy makers are needed if the balance between the relative benefits and costs of chemical use is to be altered, says Jenny Luesby


Enemy or friend? Pollution is evidence of the evils resulting from the production of chemicals, but drugs can help save lives *Phil Brown/Toby Adamson*

People do not make rational judgements about the chemicals industry.

In the 1960s it was hailed as part of the white heat of technology. In the 1980s it was condemned as dirty, dangerous and substantially superfluous.

As this survey shows, both cases can still be made. But neither is adequate to the task of defining and regulating the industry's role in our lives.

Yet this is something that needs to be done. An untrammelled marketplace has no mechanism to reflect *long-term environmental gains and losses*. At the same time, modern society has discovered that it cannot *afford to ignore its own* impact on the environment.

If consumers had perfect information and took complete responsibility for the effect of their consumption on the planet, perhaps the market could be left to judge the chemicals industry.

But in reality, consumers receive only partial information about environmental impact – setting up the possibility that they might contribute to environmental depletion in the very act of seeking to prevent it.

Data on the pollution caused by cars, chemical manufacturing and the use of chemical products serves *to reinforce the idea that* natural is best.

However, if all, or even most, consumers switched to wood from plastic, cotton from nylon and slate from asphalt, the world's natural resources would not be equal to demand.

In the US, more than 80 per cent of the roofing on new houses is made from artificial materials. Indeed, by value, 40 per cent of the materials used in building a house are man-made.

Over the past few decades, as consumption and the global population has risen, society has developed a dependency on chemicals. It cannot simply switch to natural alternatives.

Nor can it rely on its existing natural products without chemical assistance, one example being the housing stock, the longevity of which is directly linked to the use of chemicals for damp proofing and wood preservation.

Yet it must reduce the environmental impact of its consumption.

Comparative information would help. As Alan Watson of Friends of the Earth *points out, alternatives* assessments, which consider the environmental impact of substitute products, have an important role to play in directing both producer and consumer.

This type of assessment might one day allow us to understand which is more environmentally friendly, recyling nylon or processing cotton. At the moment, this is far from clear, despite the widespread belief that cotton holds the advantage.

However, even after environmental gains have been identified, individual consumers might not feel the responsibility rests with them. And, *in some cases*, the stakes are so high that public authorities have chosen to intervene.

On this basis, the production of CFCs was banned. Companies might have chosen to replace their air conditioning units and cold stores simply because they understood that CFCs were damaging the atmosphere.

But a complete shift would have been unlikely. The phasing out of production and marketplace incentives, *such as heavy taxes* in the US, has triggered the development of CFC-substitutes and ensured their gradual take-off.

Similarly, public authorities have a clear role in controlling emissions. Even if consumers were willing and able to penalise a company sufficiently to ensure it cleaned up, statutory monitoring would be required to establish which producers were creating excessive waste or emissions.

Thus, there is no way around *regulation* of the industry. Which means that policy makers, and the public, *must* take a view on the *chemicals industry and* its output.

To achieve the best outcome for the environment in this process will require complex assessments and decisions.

It is easy to decide that chemicals which present a health risk must be banned, but someone has to decide what constitutes a health risk.

An example of this is pesticides, which collectively extend the world's food resources by nearly 100 per cent, but which have *also* been shown to cause cancer in laboratory rats.

Bruce Ames – of University *of California, Berkeley* – one of the world's leading toxicologists, suggests the cancer risk to humans from daily in take of pesticide residues is far less than that from a glass of water.

And even when a chemical is blatantly nasty, such as DDT, there may be a case for its continued existence. DDT is also used to control malaria. The lives that would be lost if it were banned without being replaced by a suitable alternative must surely be a consideration in determining its future.

Similarly, chlorine is the subject of a polarised debate, pitting a lobby that supports a complete ban on the chemical against those who argue it is indispensable.

In fact, chlorine does lie at *the heart of the chemicals* industry, since it is used to break bonds so that new molecules can be formed, and as a bonding point within molecules for other chemicals.

As a result, 60 per cent of the output of the chemicals industry either contains chlorine or has been made using it.

However, this very same ability to disrupt other molecules means that chlorine is highly toxic. Its volatility within organo-chlorines – molecules that contain both carbon and chlorine – is variable, and contested, but in some cases represents a serious hazard.

If sustainable development is ever to be achieved, society needs to make difficult and sometimes detailed deci*sions about how and when it* is prepared to see chlorine used.

"There is nothing difficult about the poles. Policy makers must make the hard decisions that lie in the middle," says Scott Barrett, an environmental economist at the London Business School.

In this process, consumers cannot benefit from too narrow an assessment of risk. There are some chemicals where a ban would clearly create greater environmental costs than benefits, and the pressure on our environment is too great to accommodate large mistakes. However, perhaps the agenda would move away from banning and *towards* technical *solutions* if the benefits of the chemical industry were better understood.

The chemicals industry has been identified as one of the main contributors to pollution. But it is also the leading supplier of raw materials to the rest of industry. As a sector it has also done much to bridge the gap between consumer demand and the limited availability of natural resources.

In a house, 1kg of oil used to make plastic insulation saves 75kg of fuel oil. By weight, 8 per cent of an average car is now made of plastic, saving 0.5 litres of fuel every 100km.

What the public needs from the chemicals industry is more utility for less pollution, and that means research and *development*, and it also means regulation.

According to Huls of Germany, the proportion of plastics *in cars could theoretically* be lifted to 40 per cent, cutting fuel consumption by almost four litres every 100km. But fuel consumption is an easy market issue; Drivers will favour cars that use less fuel.

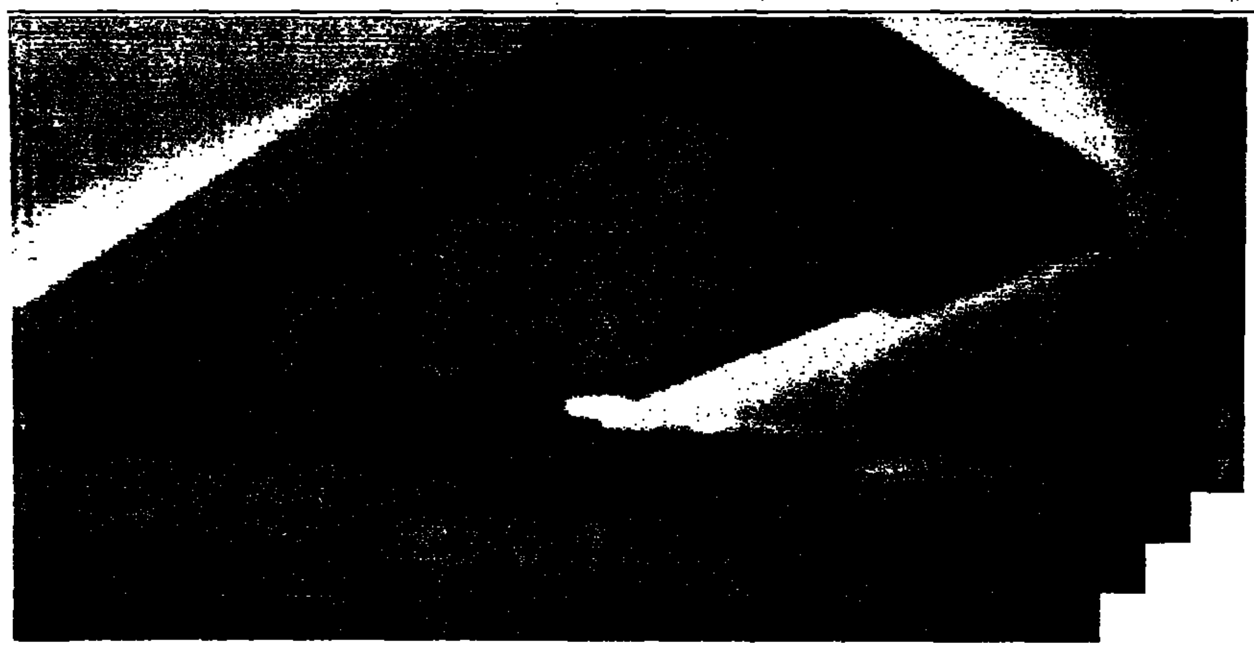
The company's own work on a fuel pipe that does not allow fuel to permeate into the surrounding air has been triggered by US regulation, says head of technical marketing, Christian Baron.

Where regulatory requirements appear, chemical companies leap into the breach: a patented product in an uncrowded market is desirable in any industry.

The *domesday* scenario is that *sustainable development* will require the western world to cut its material and energy consumption by *75 to 90 per cent*.

If a better way forward is to found which does not open the door to food scarcities, inadequate shelter and warmth, and deteriorating health, the chemicals industry will be central to it.

But the pace of its progress will depend on realistic assessments of costs and benefits, a discriminating public and discerning policy makers.



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BP CHEMICALS

Cativa - The acetic acid process

Innovene - The polyethylene process

symbols of **success**

BP Chemicals is a global leader in polyethylene, acrylonitrile and acetic acid technology. Combining research, operating expertise and constant product innovation is the key to our success.

Innovene - Our gas phase polyethylene production process is the leading licensed technology for manufacture of polyethylene - the world's most widely-used plastic.

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Cativa - Acetic acid is one of the world's most important chemicals, with a broad range of applications such as pharmaceuticals, textiles, paints and adhesives.

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BP Chemicals - formulating the future

Additives help purify the water we drink but the healthcare sector has a mixed environmental performance

Purity in the pipeline

Tough rules on water hygiene can only be met by a series of complex treatments, says Daniel Green

Chemicals and health do not mix in the public mind. But in reality, companies in the water industry have to turn to chemicals to help them meet stringent requirements for hygiene.

World Health Organisation guidelines call for a "multiple barrier method of water treatment", says Jenny Colbourne, operational science manager at Thames Water and visiting professor of civil engineering at Surrey University.

This means water suppliers such as Thames apply a series of treatments to drinking water, each of which is designed to eliminate some health risk from the original untreated water. Several of these stages rely on chemical additives.

Before chemicals are used, about 90 per cent of impurities in storage in a lake or reservoir can be eliminated through simply leaving the water to stand in the open air. "Dirt" in water can act as a safe haven for bacteria, viruses and parasites. They would cause health problems if allowed into drinking water.

But most of the dirt simply settles out when the water is still. Ultra-violet rays in sunshine help simultaneously by killing bacteria.

After that, the treatments become more complicated:

- Coagulants catch remaining dirt particles in froth. These have become increasingly important because traditional filtration plants, using sand alone, need a lot of land.

With coagulants smaller plants can filter water more quickly.

Coagulants include ferric sulphate and chloride and poly aluminium chloride (PAC). These last two are increasingly popular with water companies. But markets are likely to remain for a wide range of coagulants to deal with different chemical conditions. Manufacturers include Laporte of the UK.

- PH adjusters to treat acid soft water or alkaline hard water include lime or sulphuric acid. The pH needs to be adjusted to help coagulants and disinfectants work at their best.

The suppliers are mainstream chemicals companies such as ICI.

- Pesticide removers include activated carbon and ozone. There are dozens of suppliers of activated carbon, which is also used in portable filtration machinery.

Thames Water makes its own ozone on site using bulk liquid oxygen. The activated carbon market is growing rapidly, says market research company MSI*.

Pesticides levels have grown rapidly in the past 20 years thanks to agricultural use. They escape normal filtration, coagulation and disinfectant processes.

- Chlorine as a disinfectant comes from both gas and hypochlorites. Chlorine itself can then cause problems either on its own or by reacting with other materials, such as copper with which it can form chloroform.

Chlorine levels are limited with the help of sulphur dioxide, and there are many suppliers of both. Ozone may become increasingly popular as an alternative to chlorine because it is viewed as more environmentally friendly.

The disinfectants are a safety net in health terms, killing infectious agents that have passed through earlier treatments.

- Ammonia is used in the London area and other cities where pipes are especially long to keep the chlorine in the water for longer. Monochloramines formed by ammonia and chlorine are much more stable and effective as a disinfectant.

Other water companies may have to deal with the problem of lead piping. They add phosphoric acid to line the pipes with an insoluble coating of lead phosphate. Phosphoric acid suppliers include Albright and Wilson of the UK and Rhône-Poulenc of France.

Even though regional, the phosphoric acid business to water companies adds up to thousands of tonnes per year, says Brian Shaw, sales manager for industrial phosphates at Albright and Wilson.

These are the chemicals for the biggest single market in the water industry, that of water purification.

It is a sector that has seen its best days in terms of sales growth for the chemical additives. In the early 1990s, sales of water purification chemicals grew at 4 per cent a year, thanks to moves by the water industry to comply with the European Union's drinking water directive.

The threat of hardy infectious agents such as the parasitic cryptospiridium were behind much of the tightening of the rules.

So in the past two years growth has slipped to 1 per cent a year as the water companies have completed their measures to comply with the directive.

The fact that many of the products are subject to severe pricing competition too – they are commodity products in a mature market – means that in value terms the market shrank.

The star performer in growth terms now is the smaller business of effluent treatment, where growth has been maintained at 4 per cent a year through to the mid-1990s.

The two reasons for this resilience are that treatment for industrial effluent is more closely related to economic growth and that the focus of pollution control legislation has shifted to fresh ground.

So the role of chemicals in making water safe to drink has been consolidated, even though pressures on volumes and pricing of materials with questionable environmental effects are likely to remain.

** Waste and Waste Water Treatment Chemicals UK, July 1996, MSI Marketing Research for Industry. Tel: +44 (0) 1244 681186.*

Getting the treatment: additives eliminate health risks from original untreated water — Tony Andrews

UK market for water and waste water treatment chemicals by end use (000 tonnes)

	1994	1995	1996*	1997*	1998*	1999*	2000*
Drinking water	364.3	369.4	372.8	378.9	387.9	394.6	401.9
Industrial effluent	239.5	247.5	257.4	267.8	281.3	297.0	306.1
Boiler and cooling water	143.7	145.1	148.1	151.0	158.6	171.3	183.3
Sewage	9.2	9.7	10.1	10.5	11.0	11.4	11.9
Total	756.7	771.7	788.4	808.2	838.4	874.3	903.2

* forecast — Source: Trade and MSI estimates and projections

Still not entirely free from controversy

Clive Cookson finds that drugs and healthcare companies are still big users of pollutants

The healthcare and pharmaceutical sectors pride themselves on being clean industries, largely free of the pollution problems that beset bulk chemical manufacturing. But they are not exempt from environmental controversy.

The pollution issue that has received most publicity this year is the way chemicals in the environment can mimic the effect of hormones, particularly oestrogen, and allegedly damage the human reproductive system. Environmentalists have linked these "oestrogen mimics" to evidence of declining sperm counts and increasing cancer rates.

Despite hundreds of scientific studies into environmental hormone disruption, there is no consensus about which chemicals are responsible for the damage, if any.

A great variety of other molecules, natural and man-made, will fit into the oestrogen receptor on human cells – scientists do not know why nature has designed this particular molecular lock to such a loose tolerance – and the list of potential culprits includes a wide range of industrial chemicals used in making plastics, pesticides and other products.

No one knows whether the healthcare industry contributes to the problem, through either its intermediate manufacturing operations or its final products.

An obvious possibility is that synthetic female hormones, excreted by women taking contraceptive pills, find their way through sewage discharges into the environment. Some studies have suggested that the amounts of hormone from this source would not be sufficient to cause trouble but Roger Lilley, an industry campaigner with Friends of the Earth in London, says recent evidence is more ambiguous.

James Hagan, corporate environment director of SmithKline Beecham, the Anglo-American pharmaceutical giant, says: "The industry is taking the issue seriously and making an evaluation of it, though there is no evidence that pharmaceuticals are implicated."

SB is a good example of the new priority given by the drugs industry to environmental protection. Its policies – promoted actively by Jan Leschly, chief executive – ensure that not only the 200 employees directly responsible for environmental affairs but all 50,000 staff worldwide "think environmentally".

SB recently published a detailed environmental report, a practice that has become common in the chemical and energy industries but is still unusual in pharmaceuticals. This shows, for example, that the company's environmental spending rose from £19m in 1992 to £57m in 1995.

The SB report presents a mixed picture of the company's environmental performance. Since 1992, solvent emissions have been cut substantially and recycling has increased enormously, but the total amount of solid waste has also gone up slightly – and last year SB was fined for two minor incidents, one involving an oil spill and the other noncompliance with effluent permit conditions.

To the consumer, drug packaging seems an obvious example of waste. The volume of plastic, paper and cardboard may exceed that of the pills inside. The industry says it is trying to cut wasteful packaging but as Andrew Reid, Glaxo Wellcome group environment adviser, points out, regulations and patient safety requirements do not give it a free hand.

"Designing and approving a drug pack is necessarily a disciplined and time-consuming business, and we cannot change it as we would a soap powder package," he says.

A more specific environmental issue on which drug companies may be caught between legislative requirements is the use of CFCs, the gases implicated in destroying the ozone layer in the upper atmosphere. Now that non-essential applications of CFCs – such as in refrigeration – have been phased out in the industrialised world, the pharmaceutical industry is the largest remaining consumer. It uses CFCs as a propellant in "metered dose inhalers", mainly for treating asthma.

The EU has allowed European pharmaceutical companies to consume 7,548 tonnes of CFCs this year (with a further 460 tonnes allocated to other laboratory and scientific uses). But the United Nations Environment Programme recently warned the industry to move more quickly to non-CFC inhalers; it said no new CFC-based products should be launched.

3M, the US materials company, is leading the industry in introducing inhalers powered by HFC-134a, a CFC substitute. Glaxo Wellcome, the largest European user of CFCs, expects to file for regulatory approval for a range of replacement inhalers based on HFC-134a within the next two years, says Margaret Morgan, respiratory products manager.

"CFCs were perfect as propellants, being totally nontoxic and inert. HFC-134a interacts differently with the active drugs," she says, "and every component of the inhaler has to be redesigned." But the general view is that the industry will have weaned itself off CFCs by 2000.

Mineral's properties prove valuable

Zeolites are big business in the oil industry. They are a class of minerals whose chemical properties make them extremely valuable as catalysts in the manufacture of petrol.

Zeolites occur naturally in volcanic rock and clay-like deposits. They can also be produced synthetically. They consist of a three-dimensional network of silicon and oxygen atoms, with aluminium replacing some of the silicon to form an aluminosilicate.

However, what makes them special is the uniform distribution of tiny pores throughout their structure. These pores are ideal for selectively absorbing molecules such as the long chain hydrocarbons contained in oil. After absorption the zeolite transforms these large molecules into small chain hydrocarbons which can be used for petrol.

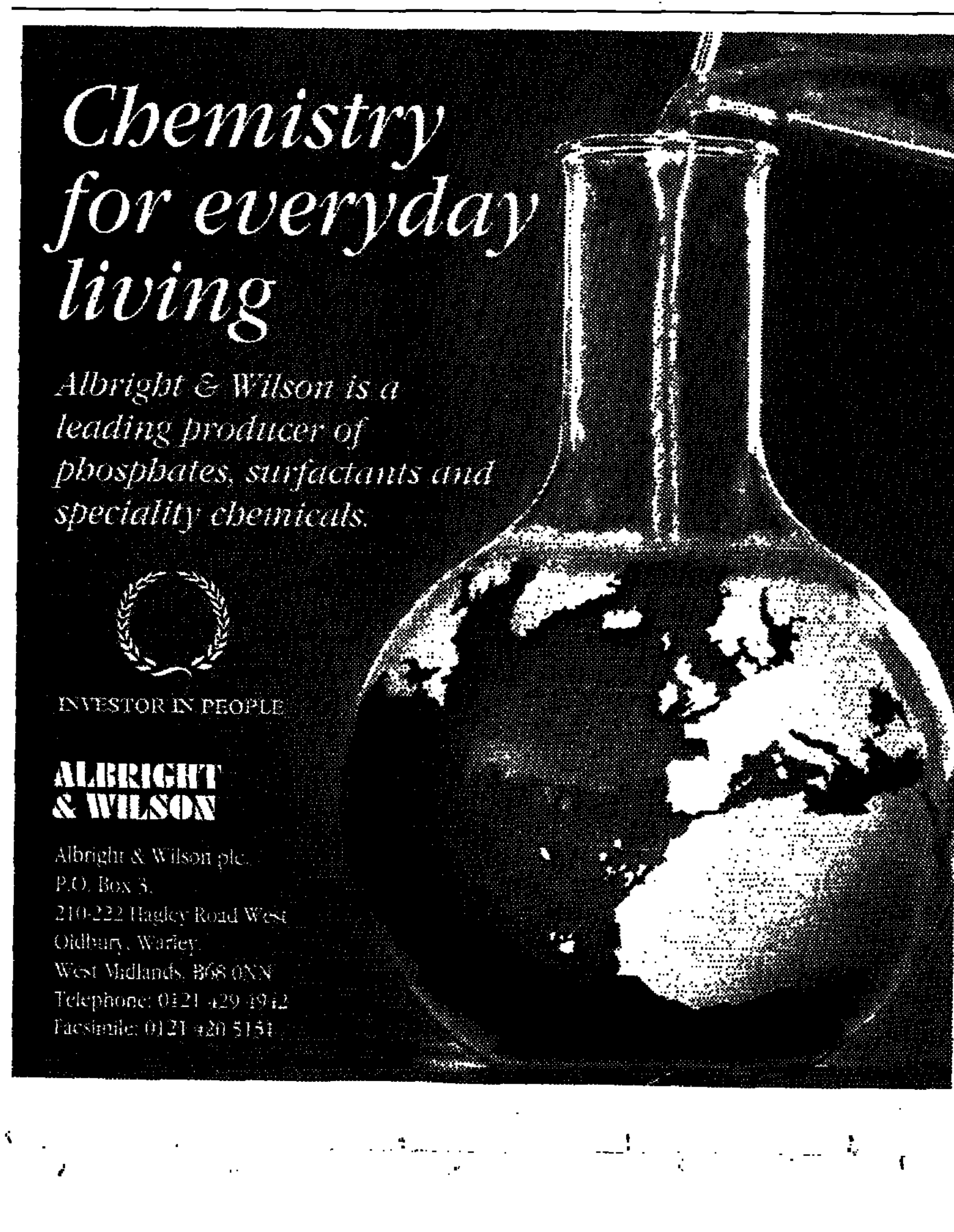
In the 1960s, the amount of gasoline obtained from a barrel of crude oil doubled when the original catalysts were replaced with zeolites. This meant that fewer refineries were needed to meet the ever-increasing demand for petrol.

A synthetic zeolite, ZSM-5, produced by US Mobil Oil, helped solve New Zealand's fuel problem. New Zealand has vast reserves of methane gas but very little oil. Chemists can easily transform methane into methanol, which is then converted to gasoline by treating it with ZSM-5. This will mean lead-free petrol can be produced more cheaply.

Today, chemists are able to control the size of the pores in zeolites and thus select the molecules which they absorb. Zeolites have replaced phosphates in many washing powders, acting as water softening agents. They can be used to absorb poisonous gases such as ammonia and hydrogen sulphide, and are widely used in the treatment of sewage.

BP and its US associate, United Oil Products, are developing a new process involving zeolites, which converts propane and butane to high quality fuels.

Carol Jones



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FT Surveys

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While products made with chemicals can help conserve natural resources, they also cause pollution

Hidden fabric of modern life

Jenny Luesby finds synthetic products save on consumption of valuable natural resources

It would be hard to find a factory product that does not contain, or has not been treated with, synthetic chemicals. Yet the chemicals industry has a tough time presenting manufactured goods as a benefit to society.

It is not that consumers do not enjoy sleeping in beds, under quilts, next to bathrooms or indulging in countless other activities which depend on chemicals. They are the hidden fabric of modern life: everyone uses them and no-one notices them.

At the same time, goods made from chemicals are attacked as either superfluous – a redundant array of cocktail twizzle sticks and anti-ageing creams – or inferior to the environmentally friendlier natural alternatives.

In many areas, the contribution of chemicals defies both these judgements.

Nowhere is this more so than in housing. In the US, a new house typically contains chemical building products worth $12,925, or just under 40 per cent of the total. These include the plastics used to make pipes, gutters and sometimes window frames, as well as chemically derived roofing, paints, sealants, insulation and adhesives. In all these areas, plastics and chemicals can "substitute or supplement scarce traditional resources", says the Association of Petrochemical Producers in Europe.

For example, in the US, about 82 per cent of new roofing is made from materials such as fibreglass, asphalt and man-made rubber, according to the US Chemical Manufacturers Association. A wholesale switch to natural roofing would thus increase the pressure on the world's clay, slate and wood supplies five-fold. Even then, chemicals would be essential.

In post-war Britain, the untreated wood used to make window frames "often decayed within five years", says Chris Coggins of the British Wood Preserving and Damp Proofing Association. With preservatives, service life of wood can be extended for up to 60 years, saving on wood used in construction.

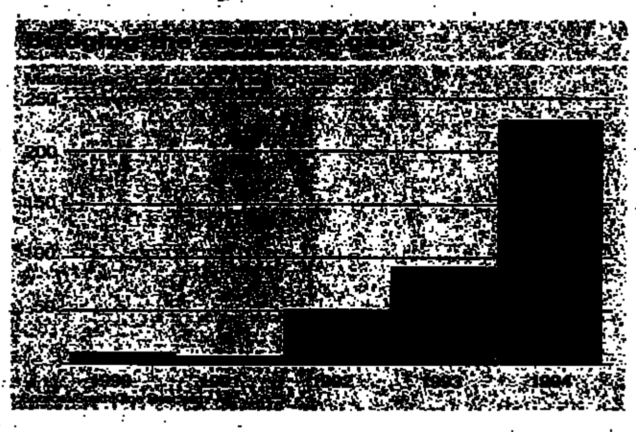
On the basis that burning fossil fuels causes more pollution than any other activity, chemicals also have an environmentally friendly role to play as insulation.

In the UK, the government's Building Research Establishment estimates that insulation could deliver a 40 per cent reduction in domestic energy requirements, which currently generate 43m tonnes a year of carbon dioxide emissions.

Such savings are based on a 20 per cent cut in fuel requirements through a 150mm layer of loft insulation and 25 per cent through cavity wall insulation. Translated into a direct benefit from each unit of chemicals, studies show that 1kg of oil used to produce insulating plastic can save 75kg of oil over 25 years.

"Plastics are not so much part of the problem as they are a solution," says the APPE. "Without the 80m tonnes of plastics produced around the globe every year, mankind would be totally unable to satisfy its material needs without intensifying our environmental problems."

Invisible benefits: everyone uses chemicals and no-one notices them Trevor Humphries



Insulation also brings health benefits. Professor Peter Smith, chairman of the environment and energy committee of the Royal Institute of British Architects suggests that proper insulation of the UK's housing stock would cut more than £1bn from the country's health service bill. This spending is directly related to health problems caused by poor housing, he says.

A more obvious benefit is the extension of existing housing resources. Remedial treatment with chemicals can prevent the destruction caused by wet rot and dry rot for more than 30 years.

The benefits of chemical industry output are not confined to the fabric of buildings. Within the home, curtains and carpets both play a role in saving energy, and more than half the fibres used to make textiles are artificial, with man-made fibres accounting for 70 per cent of British carpet manufacturers' raw materials.

It is taboo within the textiles industry to claim the environmental high ground for any one fibre – perhaps because no producer believes they will gain from drawing attention to the chemical dependency of all fibres. But even a simple resource comparison is interesting: one barrel of oil will produce an amount of polyester equal to the annual wool output of 280 sheep, or the cotton crop from 1.4 hectares of land.

On this basis, it would be impossible to replace the man-made fabrics that the world consumes with natural alternatives – the land resources do not exist.

Similar problems would arise if producers sought to replace the technical plastics used in toothbrushes with animal hair, the acrylic used for bathroom furniture with metal and ceramics, or the composites used for home and office furniture with wood and metal.

All of which highlights the way the world's natural resources have become overstretched. Indeed, the Wuppertal Institute, a German think-tank, believes western consumers will need to reduce their material and energy consumption by 75 to 90 per cent if their lifestyle is to become sustainable.

Many would argue westerners have too many clothes, shoes, cooking utensils, electronic gadgets, toys and ornaments. But how many people could sacrifice nine-tenths of their consumption without pain?

But a 90 per cent cut in consumption might not even mean an equivalent reduction in material goods.

Chemicals are already being used to recycle paper, plastics and textiles, as well as to make other goods last longer. They can also produce useful new types of products. Most of the energy consumed in an item of clothing is during its washing.

Hoechst Trevira recently launched an additive for textiles that are rarely washed – such as the inside of training shoes – which kills bacterial and fungal infections. It would not take many more such additives to deliver self-cleaning clothing.

"If human behaviour is to be compatible with the future, we must acknowledge the limits of natural resources and act accordingly," says Jurgen Strube, chairman of German chemicals company BASF.

Like many in the chemical industry, he believes that if a solution is to be found to the problem of overstretched resources, the chemicals industry is likely to play a central role.

Tied to a multitude of sins

Products found to cause damage support the case for precautionary measures, says **Leyla Boulton**

The chemical industry and Greenpeace, one of the world's most vociferous environmental pressure groups, disagree on most issues. However, the industry would be hard-pressed to dispute the claim by Paul Johnson, a UK scientist at Greenpeace, that the sector can be tied to a "multitude of sins" in environmental terms.

These range from global warming and ozone depletion, to water and air pollution. The big differences between the industry and its critics revolve around the extent of the costs paid by society for enjoying the benefits of its products.

A first attempt in the UK last month to quantify various economic sectors' costs to the environment identified the chemicals and man-made fibres industry as the biggest emitter of non-methane volatile organic compounds in the economy.

NMVOCs are organic compounds, generated from products such as solvents, which evaporate readily and contribute to air pollution directly or through chemical or photochemical reactions. The industry accounted for 14.8 per cent of UK emissions of NMVOCs in 1993, according to data compiled by the Office for National Statistics.

Among manufacturing industries, the chemicals and man-made fibres sector was the biggest emitter of greenhouse gases, arising mostly from the burning of fossil fuels, linked to global warming.

Although scientists still have some way to go to pinning down the nature of the problem, the Inter-Governmental Panel on Climate Change found recently that the "the balance of evidence" points to a "discernible" human influence on climate. And governments are sufficiently concerned about global warming to apply the precautionary principle in seeking to reduce greenhouse emissions beyond 2000 when they meet in Kyoto next November.

While energy-intensive industries such as the chemical sector may disagree on the extent of the threat, the industry has been negotiating voluntary agreements with governments to increase its energy efficiency. This both reduces energy costs and cuts greenhouse gas emissions.

The industry is less prepared to concede responsibility on a precautionary basis for fears about chlorine and so-called gender-bending chemicals. Chlorine, familiar for use in water treatment, is an important intermediary in making thousands of other compounds ending up in widely used products such as PVC.

Environmentalists are campaigning for the phasing out of chlorinated compounds on the grounds that they generate dangerous byproducts such as dioxins and mercury both through manufacturing processes and the waste stream.

Alan Watson, senior industrial pollution campaigner at Friends of the Earth, argues that "the main threat from organo-chlorine compounds is their potential for disrupting hormones at extremely low concentrations".

But because of its importance to chemical manufacture, the industry has been fighting back with a campaign to resist calls for blanket bans on chlorine. As Dow Chemical, the US chemicals giant, said in its 1996 environmental report: "because chlorine plays such as a vital role in Dow's production mix, we take these allegations seriously".

But Dow, in many ways a trailblazer in industry's efforts to clean up its act over the past decade, argues that concerns should be focused only on compounds proven to be persistent, toxic and bioaccumulative. Examples include PCBS, chlorine byproducts from pesticides – banned after they were found to be accumulating in the food chain, harming human health.

However, the industry's past history of producing products which have subsequently been found to cause damage undermines its well-argued resistance to more radical interpretations of the precautionary principle.

Its past sins include CFCs, used as coolants, which are now being phased out, blamed for eating away at the planet's protective ozone layer. And as the more forward-looking chemicals manufacturers recognise – prompting billion-dollar investments in reducing pollution and waste – any costs to society ultimately bounce back on the industry.

A survey conducted this year for the British government found the chemicals industry in 1994 was the biggest spender on waste abatement, the second biggest spender on air pollution control and the third biggest spender on water pollution abatement.

Alistair Nisbet, chemicals analyst with UBS, the Swiss investment banking group, argues that "the biggest threat to the industry as a whole is cost of compliance with environmental legislation". Alan Care, of Leigh, Day & Co, a London law firm specialising in environmental litigation, takes this warning a step further. He says the chlorine industry, already under siege from dioxin law suits in the US, risks becoming litigators' "number one target" worldwide unless it moves fast to reduce its costs to society.

Degussa on Water Treatment

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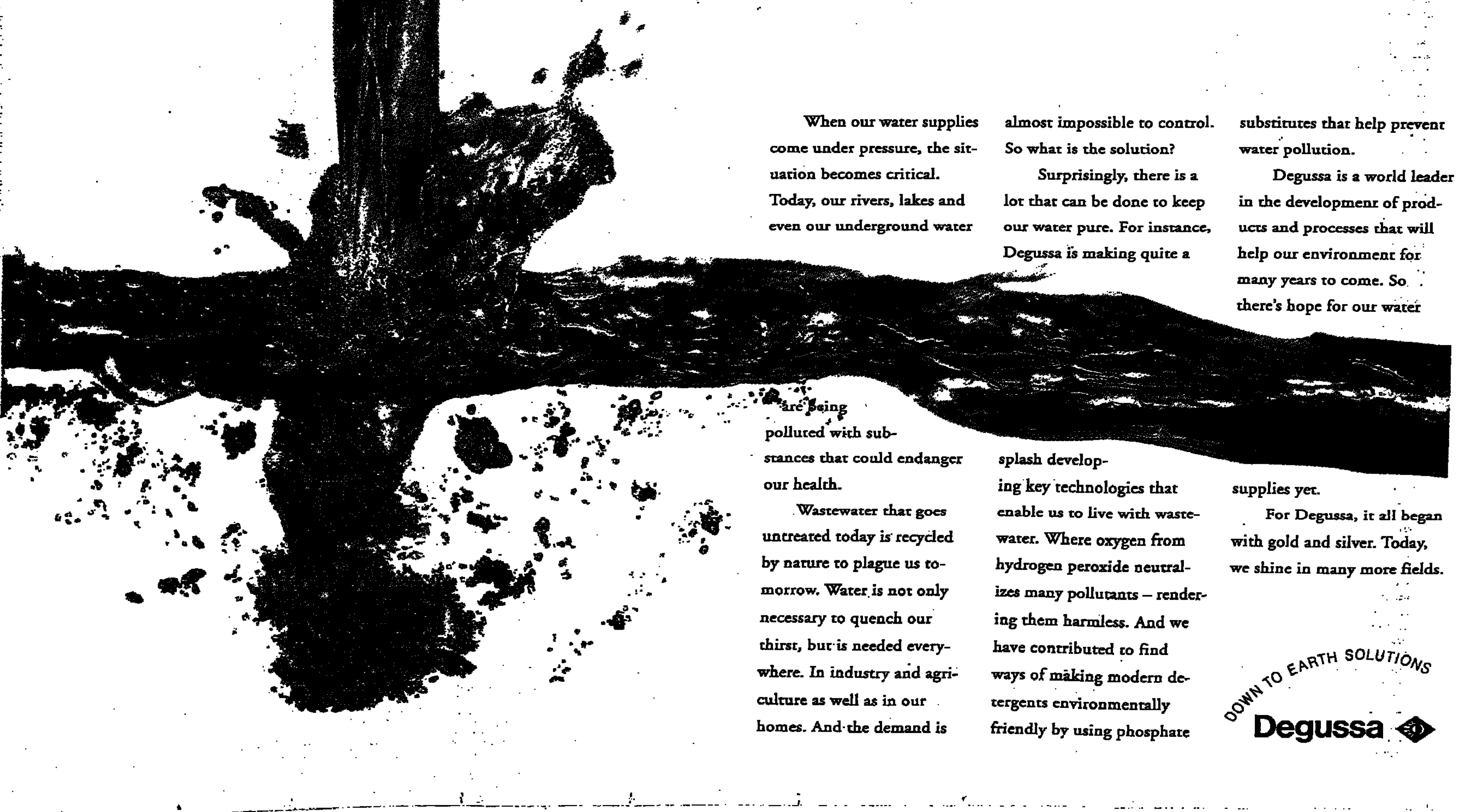

When our water supplies come under pressure, the situation becomes critical. Today, our rivers, lakes and even our underground water are being polluted with substances that could endanger our health.

Wastewater that goes untreated today is recycled by nature to plague us tomorrow. Water is not only necessary to quench our thirst, but is needed everywhere. In industry and agriculture as well as in our homes. And the demand is almost impossible to control. So what is the solution?

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DOWN TO EARTH SOLUTIONS

Degussa

Opinion: far stronger incentives are needed to reduce the environmental damage caused by chemicals

More gain, less pain

Scott Barrett is associate professor of economics at the London Business School

The user: he needs a good reason to stop using harmful pesticides on his crops

Jonathan Turner

The manufacturer: companies need incentives to develop environmentally friendly products

Chemicals have done much to improve our quality of life. But they have done as much to make it worse. That they have done both is inevitable. But the fact that the advantages of their use are equally balanced by the harm they do is not inevitable. We should be able to get more benefit from chemicals with less associated harm.

The chemical industry does not set out to harm people or the environment. Its aim is to produce goods that improve people's lives and in this it has succeeded – if it had not it would not remain in business.

The harm done by chemicals is rather a consequence of the fact that those producing and using chemicals have little or no incentive to take account of the effect of their actions on others or the environment.

A farmer has every reason to think about the consequences of spraying his crops with a pesticide on his own prospects. But he has little reason consider the consequences for nature or the quality of the drinking water somewhere downstream. Virtually all those who would benefit from his rectitude are strangers to him.

Moreover, his actions alone are likely to have little effect on the environment; damage usually arises from chemical use by a large number of people over a considerable period of time. So the incentive for the individual to refrain from chemical use is low.

To improve on this state of affairs requires intervention by a visible hand: government. Chemical users with even the best intentions need to have their practices co-ordinated. Users guided by self-interest, however, need more – their incentives must be altered.

Government must also alter the incentives facing manufacturers. Even if a manufacturer voluntarily stops making a pesticide it knows is environmentally destructive, ceasing production will not necessarily be of overall benefit, for the pesticide does good as well as harm.

But supposing careful cost-benefit analysis demonstrated that people and the environment would be better off if the pesticide were no longer used.

The company might develop a substitute product, one as effective as the original in controlling pests but without the harmful environmental side effects. If the manufacturer could recoup its R&D costs and bring the substitute to market at a lower price than the original pesticide, it would need little persuasion to do so, as users of the original product would have every reason to switch to the new one.

More often, however, environmentally-superior goods are costly to develop and manufacture. And without an incentive to pay more for a substitute which principally benefits others there will be no market for the superior substitute and hence no incentive for a company to make it.

If all manufacturers stopped producing the original product, however, then a market for a substitute would be created automatically. Users would be willing to pay more for the new product once the old one were no longer available. This would create an incentive for the chemical industry to develop a more environmentally superior substitute.

The logic of this argument leads to what may seem a startling conclusion: the blame for much of the environmental damage caused by chemicals does not lie with the producers or consumers. It lies with government.

Of course, firms and users are not always virtuous. Some break the law. Some are negligent. But systematic failure to protect the environment adequately must be traced to the lack of incentives for producers and consumers to take account of the effects of their actions on the environment.

A trend in recent years has been for companies to seek to improve their environmental performance voluntarily and to be seen to be doing so. While this is a positive move, if the commercial forces acting on companies do not reward better environmental performance then such unilateral actions will have little effect. Nor for similar reasons will the "green consumer" make much of a difference. Significant change requires a wholesale restructuring of incentives, and this can only be done by government.

Governments do not need to regulate more. They should regulate better. More precisely, they should regulate so as to create incentives for manufacturers and users continually to innovate.

Most environmental policies stifle rather than encourage innovation. Before a chemical compound can be manufactured and marketed it must pass certain toxicological and other tests. Maximum concentrations of the chemical are also regulated. This approach offers a measure of protection to the public but it provides no incentive for firms to develop chemicals that are yet more environmentally friendly or products that use these chemicals in even smaller concentrations.

Similarly, regulations enforcing use of an available technology – such as the catalytic converter – offer little incentive for firms to search for better ways of reducing emissions.

What is needed is strong competition in the development of environmentally-superior technologies. The tremendous advancements in chemicals came about because users wanted better products and because competition compelled manufacturers to deliver better products to avoid losing market.

Environmental regulations should create equally strong incentives but with the goal being to meet the needs of environment and not just those of the consumer.

Firms will not make the required investment in R&D, however, unless unless they can expect to earn an adequate return. If innovations could be quickly copied by rivals, firms would never carry out the huge investments needed to produce them. Environmental regulations should give manufacturers some assurance that good, environmentally-superior products will find a market.

This is hard to accomplish. Electric cars relying on chemical batteries have never found a large market, but this is partly because not enough electric cars have been produced.

The state of California has sought to change this by passing legislation requiring that, by 2003, 10 per cent of the cars sold in the state produce no emissions.

This, it seems, could create the required incentive for innovation. But if by 2003, the car industry does not have an electric car to sell, will the state really enforce a law which prevents the auto companies from selling all other cars that year? Chances are that legislators would quickly revise the law.

But the car manufacturers could anticipate this, too, and would thus be unlikely to invest as much in R&D as they would if the government were committed to its plan.

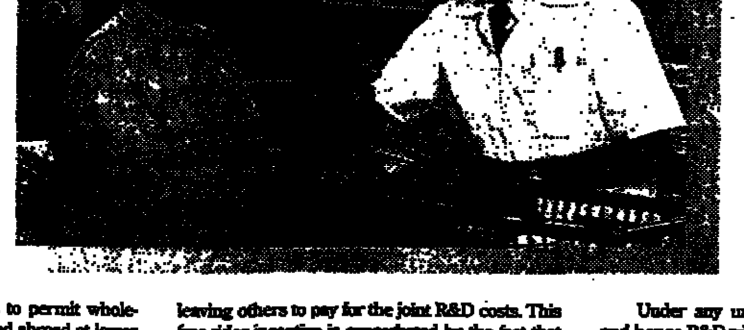
The credibility of government promises are thus crucial if companies are readily to invest in environmental R&D. The record in Britain is uneven. For example, believing that the government would keep to its schedule of landfill standards in the 1990 Environmental Protection Act and apply them across-the-board, a sophisticated waste company invested in advanced disposal technologies. The government then postponed the planned regulations and refused to apply them to existing landfills. The share price of the firm tumbled and its chief executive was sacked.

Pfizer forum | Parallel Trade and Comparative Pricing of Medicines: Poor choice for patients?

DR PATRICIA M. DANZON

Government strategies to limit drug reimbursement expenditures by "importing" savings from countries with lower prices are bad policy and harmful to innovation, according to a prominent health economist.

Drug prices have traditionally differed substantially across countries, reflecting differences in regulation, insurance coverage, medical practice, exchange rates, and other factors. Meaningful comparison of drug prices in different countries is technically problematic, because of vast differences in the range of drugs, forms, strengths and packsizes available in different countries.



Nevertheless, in recent years, governments in countries with relatively high prices have been increasingly attempting to reduce their own drug expenditures by taking advantage of lower prices in other countries. Two strategies are employed to that end. The first relies on cross-national price comparisons as a benchmark for regulating domestic prices, a policy that has already been adopted by several countries and is being proposed in others. The second strategy is to permit wholesalers to import drugs purchased abroad at lower prices. Such parallel importing is growing in Europe and threatens to expand significantly, as traditionally low-priced countries join the European Union.

Trade normally increases consumer welfare, and it is on this basis that the European Commission has supported parallel imports. However, the necessary conditions for trade to enhance social welfare are violated in the case of parallel trade in drugs. The lower prices in the exporting country reflect greater regulatory leverage, not superior economic efficiency or lower real costs - indeed, parallel trade adds costs of repackaging transportation etc. Moreover, because prices are regulated, any savings often accrue to middlemen rather than being passed on to consumers.

The exporting of regulatory leverage from one country to another is particularly harmful when applied to innovative pharmaceuticals because it undermines the basis of paying for R&D. The pharmaceutical industry is more research intensive than any other industry. R&D is roughly 14-17 percent of current sales. But R&D accounts for about 30 percent of total costs, if all costs are discounted to present value at the time of launch. The cost of bringing a new chemical entity to market is roughly $359m (in 1993 dollars).

The dilemma posed by these high R&D costs is twofold. R&D is a global joint cost - that is, the cost is the same no matter how many consumers worldwide use the drug. Since R&D costs cannot be rationally allocated as a direct cost of serving a specific country or consumer group, there is a strong incentive for each country to free-ride, leaving others to pay for the joint R&D costs. This free-rider incentive is exacerbated by the fact that R&D and other significant fixed costs are sunk by the time that price is negotiated. Manufacturers rationally continue to supply existing products as long as price covers the marginal costs of production and distribution. However, in the long run, if prices are inadequate to pay for the joint costs of R&D and other sunk costs, the revenues will not be there to develop new drugs.

R&D is of course not unique to pharmaceuticals. Patent protection is the normal mechanism whereby innovators recoup their R&D investments. However for pharmaceuticals, the value of patent protection is constrained by price regulation in many countries, as governments attempt to control public health budgets. As monopsony purchasers of drugs, governments face a strong temptation to force prices down to marginal cost. But if every country pays prices only sufficient to cover their marginal costs - either through direct regulation or by "importing" low prices through parallel imports and cross-country price comparisons - then no one pays for the common costs of R&D. At the limit, if everyone pays only the short run marginal cost, the shortfall could be as high as 50-70 percent of total cost.

A second fallacy underlying policymakers' endorsement of parallel importing and cross-national price comparisons to equalise drug prices across countries, is that prices *should* be uniform. In fact, economic theory implies that charging different prices to different users is optimal and necessary to achieve the appropriate rate of R&D – the rate that consumers are collectively willing to pay for. Healthcare consumers differ greatly in their ability and willingness to pay for innovative medicines. If all are charged the same high price, then low income countries will be unable to afford innovative medicines, even though they would have been willing to pay the marginal costs of serving them. But if everyone pays the same low price, then R&D investments will target only the most common medical needs where high volumes can offset low prices. In the long run, consumers will be deprived of innovative drugs that they would have been willing to pay for, had differential pricing been permitted. Such differential pricing is commonly permitted in other industries with high joint costs, such as utilities and airlines.

Under any uniform price, global revenues and hence R&D will be lower than with differential pricing. Policies that enforce uniform prices across national borders - either indirectly through parallel trade or directly through comparative price regulation - are therefore bad policy for consumers.

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Benefit or cost? Opposing views on whether the industry is good or bad to mankind and the world

Senior campaigner at Friends of the Earth **Alan Watson** says that the industry has a lot to answer for

Prescription for disaster

Imagine the outcry if it had been discovered during the cold war that the USSR had been secretly contaminating our food and water supplies with substances that were hard to detect but which disrupted our immune systems, decreased our fertility and reduced our intelligence.

Imagine further that the contamination had been so effective that scientists were discussing whether it was still safe to breast feed babies; why the incidence of so many types of cancer was rising; and whether our long term capacity to reproduce was in danger.

The whole population would have been up in arms.

Unfortunately all of those things are true but it is not the old cold war enemies that are to blame. The culprit is the modern chemical industry.

The chemical industry has a lot to answer for: huge accidents, such as Seveso, Bhopal and Flixborough are now household names. But the real damage has been done well away from public and media scrutiny.

In 1978, Occidental Petroleums director of Health and Safety wrote a memo asking for an estimate of the compensation costs likely to arise from people exposed to the toxic chemical DBCP who became sterile or got cancer. "Should this product still show an adequate profit meeting corporate investment criteria, the project should be considered further," he said.

It would be nice to think that such attitudes were behind us. Sadly, they are not.

Friends of the Earth receives many phone calls and letters from people whose lives are blighted by discharges from local chemical works or their waste disposal sites.

Indeed, surveys show that 90 per cent of the population are "worried" or "very worried" about chemicals in the environment.

People are also disillusioned with the official regulators, who are perceived to have cosy relationships with the corporate polluters and little interest in the adjacent communities.

The publication of Our Stolen Future earlier this year provided a focus for such concerns by clarifying the connections between industrial chemicals and human health.

As a result, the chemical war is beginning, with the public, environmental groups and a rising number of scientists, medics and environmental lawyers facing an industry that is refusing to accept the imperative of urgent and radical change.

The chemicals industry only really took off after the second world war when Germany's chemical technology became available to British and US companies.

Once chemists learned how to make new molecules on demand, success required only marketing and gloss to convince consumers they needed all manner of unnatural items, such as plastic raincoats, low calorie drinks, throw-away razors, and lawns without dandelions.

Sprinkled among the glitz were a few genuine advances, such as antibiotics, but everything was bundled into a single package called "the modern way of life" and people bought the whole thing unquestioningly.

Meanwhile, the new chemical technologies were managed as if they represented nothing new. Chemical wastes were handled as factory wastes had always been handled: thrown into the river, or buried in a shallow pit behind the works.

The chemists who developed the new products recognised that the new molecules were radically different – much more dangerous and long-lasting in the environment – but corporate accountants held control and the chemists followed.

The inevitable consequence was the massive production of toxics which contaminated every corner of the planet, causing cancer, birth defects and genetic damage, disrupting animal nervous systems and stressing the stable functioning of ecosystems.

It was a prescription for disaster, which has unfolded as global warming, ozone depletion, intercontinental acid rain, increasing cancer and asthma, children contaminated with brain damaging lead, falling sperm counts, thousands of leaking chemical dumps and growing mountains of radioactive debris.

Alan Watson: the battle lines have been drawn — Paul Rogers

Industry maintains that it can carry out business as usual. It has sponsored local nature reserves, renamed divisions "EcoSafe" and used recycled paper for environmental statements.

But our experience at Friends of the Earth is that it still operates behind a cloak of secrecy, delays admitting accidents and is slow to adopt cleaner technology and phase out toxics.

Nevertheless, the battle lines have been drawn and these are not battles that industry can win.

Mothers living close to chemical factories are not going to stop worrying about the health of their children until they have achieved real change.

Their agenda varies from group to group, but there are several demands in common:

- The principle of "no dumping" or "zero discharge" of toxic, persistent and bio-accumulating chemicals.

- Greater transparency and better access to information. In the United States, the Community Right to Know Act which requires companies to provide data about discharges into the environment has been a tremendous success.

- An end to the deregulation of the chemical industry. As John Gummer, environment secretary, has said: "Voluntary adherence has a superficial attraction precisely because it is not demanding."

- The regulation of chemicals by classes rather than individually. Last year the 10 millionth chemical was recorded by the American Chemical Society's Chemical Abstracts Service computer based registry.

To assess each of these chemicals individually would take hundreds of years.

But there are classes of chemicals, such as organochlorines – a family that includes dioxins, DDT, PCBS and CFCs – whose dangers have already been highlighted.

- The replacement of "risk assessment" with "alternatives assessments" which would ask wider questions about need.

Risk assessment, used to justify discharges into the environment, is more of an art than a science when so little is known about the chemicals involved.

All this leads to the fundamental questions of who should control production decisions in industry: what products should be made, using what raw materials and employing what processes?

Never before has the public been forced to debate this fundamental question. Massive pollution demands it now.

Robin Paul, president of the Chemical Industries Association and chief executive of Albright & Wilson sees chemicals as fundamental to progress

Solutions with potential

Chemicals have been intricately linked with human development throughout the ages. Their potential to improve *our quality of life is as exciting* now as it has ever been.

Indeed, solutions to the physical, medical, nutritional and environmental problems the world faces will only be found with chemistry and chemicals.

The industrial production of chemicals has existed for little more than 150 years. But it is now a global industry with sales of about £1,090bn – equivalent to the GDP of the UK and Belgium combined.

Europe is still the world's largest producer of chemicals. In 1994, the EU accounted for 29 per cent of world output, compared with 26 per cent in the US and 18 per cent in Japan.

In the UK, the chemicals industry has grown twice as fast as total manufacturing, with estimated sales last year of £39bn and 236,000 employees.

Robin Paul: the power to improve our quality of life — Charlie Bibby

It is the country's biggest manufacturing export earner. With exports amounting to £21.3bn and imports to £17.3bn, it earned a trade surplus last year of £4bn. It also receives royalty income from overseas that is more than three times its payments, whereas manufacturing industry as a whole pays out more than it receives.

Meanwhile, each man, woman and child in Britain consumes about £500 worth of chemicals a year. For the average household, this includes about £6 a week on chemicals in food drink and tobacco, £2.10 on clothing and footwear and £4.75 on chemicals for health and personal care. Housing and household goods account for another £5, while the chemicals used in motoring, travel, fuel and telecommunications cost £3.50. Finally, the chemicals in sports and entertainment add £3.65.

This weekly bill has grown twice as fast as GDP, with UK consumers spending 16 per cent more on chemicals in real terms than they did five years ago. Much of this growth is based on new chemicals that are often more effective or kinder to the environment.

Many are used during the manufacturing process. However, chemicals can also figure large in the final product.

Televisions are a prime example. Chemicals make up about a third of the weight of a television set, and about a quarter of the value. Many of these are obvious – high impact polystyrene for the shell and resins for the circuit boards – but others are not. The tube itself contains more than 20 chemicals, all minute in volume and low in cost, but every one essential to the high performance of the product. Without the rare earth derivative yttrium oxysulphide there would be no reds in the picture.

Another important example of how chemicals can improve the quality of life is shown by the work of Professor Bill Bonfield in London, who has produced a polymeric, artificial bone material called Hapex – a composite of polyethylene and a ceramic mineral, hydroxyapatite, used to make hip and other bone replacements more permanent.

Hapex could save the NHS more than £30m a year by eliminating revision operations, which cost £4,400 each. About one in five of the annual 40,000 hip replacements fails within a few years.

Clearly a manufacturing operation as large as the chemicals industry cannot exist without having an impact on the environment. However, the industry has been taking great pains to improve its environmental performance.

Energy consumption per unit of chemical output has halved over the past 20 years, during which time domestic energy consumption has increased by 11 per cent and energy consumption in transport has risen by 73 per cent.

The discharges of Red List substances (which are of particular concern if discharged into water or sewers) monitored by the Chemical Industries Association have been reduced by 89 per cent since 1990.

Even more importantly, many of the solutions to environmental problems have involved chemical innovations. Examples range from biodegradable detergents to lead-free petrol.

The UK industry spends £2.5bn a year on R&D and close to £2.5bn on capital expenditure. Much of this spending is directed at new products and processes to improve our quality of life and reduce the impact of chemicals on our environment.

One of the benefits of the government-inspired Technology Foresight initiative has been to focus our attention on innovation and creativity. It has led to an unprecedented pooling of ideas and knowledge on future needs. It is already clear that chemicals, chemistry and their related disciplines will be at the forefront in satisfying those needs.

There are some exciting possibilities.

Cheaper and easier sea-water purification will help avert the potentially destructive international friction which some are already forecasting as populations expand and rivers are dammed and diverted.

Lightweight batteries and fuel cells using advanced chemical techniques, both the subject of recently-announced breakthroughs, are set to transform the availability of power for vehicles and mobile equipment. By disconnecting power generation from its point of use, both noise and air pollution can be reduced.

Chemicals are also set to lower the cost of transport in many other ways through improved vehicle construction techniques, lower vehicle deadweights, lower capital costs, longer service intervals and more efficient use of fuel.

Liquid crystals illustrate the ability of chemicals to turn physical effects into visible displays, and in the not-too-distant future we can look forward to many new uses of liquid crystal technology coupled with increased exploitation of fibre optics.

One example is flat screen displays which will give space savings in homes and workplaces. Another is a liquid crystal technology patented in America that will allow consumers to change the colour of their car at the press of button.

Looking further ahead, molecular switching, through which individual chemical molecules can be switched on and off to store and reproduce data, could open up prodigious increases in computer capacity.

Of one thing we can be sure: none of it will happen without chemicals.

■ **Cost benefit analysis:** by Jenny Luesby

Framework for decisions

Assessing environmental needs against economic ones is controversial

Policy makers face a daunting task in reconciling the demands of environmentalists, who relate their calls to the future of the planet, and the chemicals industry, which builds its case around economic well-being. Neither case can be dismissed, yet balancing environmental needs against economic ones is fraught with difficulty and highly controversial.

Cost benefit analysis (CBA) is a framework for considering both sets of needs in parallel and as such has become standard practice for some regulatory bodies.

In the US, CBAs are used for any regulation anticipated to have an impact on the US economy of more than $100m. In the UK, the Health and Safety Executive uses the method routinely, as does the Department of Transport.

A CBA generally assesses the economic costs of banning a chemical on one side of a balance sheet, and the environmental gains on the other.

The first step to establish a baseline. In the US, the Environmental Protection Agency begins by looking at the uses and substitutes for a product, on the basis that if something can easily be substituted, the gains from its existence may be marginal.

The assessment that follows may be quite simplistic. For example, a recent British government and industry paper on cost benefit analysis, cites a CBA carried out for tributyl tin (TBT).

This chemical is an ingredient in wood preservatives and marine anti-fouling paints. Risk and Policy Analysts, a UK consultant, recently estimated the proportion of wood preservatives using the ingredient. They then multiplied the price difference between TBT preservatives and TBT-free preservatives by the amount of wood that needs to be treated in a year, to arrive at a loss to producers from banning TBTs of £800,000.

Similarly, for anti-fouling paints, which reduce the number of times a boat needs to be painted, they computed the cost of extra dry docking and extra paint and added an increase in fuel costs as a result of the drag caused by marine life clinging to the boat. This calculation generated an annual cost of £10m from a ban, as well as a one-off conversion cost of £9m.

Meanwhile, the environmental losses from using TBT were assessed as insignificant in wood preservatives, because of the low level of release. But anti-fouling paints have been shown to cause severe harm to marine life and to the viability of shell fisheries.

The political judgement comes in assessing whether £19m in the first year, and £10m thereafter is a reasonable price for preventing the harm to shellfish. In this case, the commercial gains for shellfish farms from a ban could also be assessed.

But normally, authorities seek to place a monetary value on the wider environmental implications of a measure before deciding whether to proceed. This valuation is the most controversial element of CBAs.

In the UK, the Department of Transport's decision to place a value on a statistical human life that is now close to £800,000 caused initial consternation. However, the figure itself, which in this case is also used as a benchmark by the Health and Safety executive, is a political judgement and not inherent to cost benefit analysis.

In effect, the figure represents an effort to prioritise measures. A ranking system could just as easily be used, with a death valued more highly than an injury, the use of a non-renewable resource ranked above a renewable one, and pollution changing the global climate above a bad smell.

Without CBAs this would require impossible judgements at the level of specific measures. By translating the big picture into a series of elements, such as lives lost and resources depleted, CBAs provide as much empirical support as possible for judgements on the importance of a measure.

However, some critics of CBAs argue that the issue is not how environmental losses are valued, but that they are valued at all. The precautionary principle, a tenet for many environmentalists, dictates that any chemical which might be dangerous be banned until it is proven otherwise.

This makes economic costs irrelevant, as well as any attempt to prioritise environmental losses.

One problem with this position is that it runs counter to human behaviour. Humans have always been willing to take risks with the unknown to secure benefits. Even where risks are understood, people take them, by eating, crossing roads and going out in the sun.

CBAs are merely formalising calculations of costs and benefits that every individual makes constantly. In comparable areas, a CBA could draw up separate balance sheets covering areas such as health gains and costs, resource gains and costs and financial gains and costs to highlight direct net benefits. This would remove some of the controversy over CBAs, and would sometimes be possible.

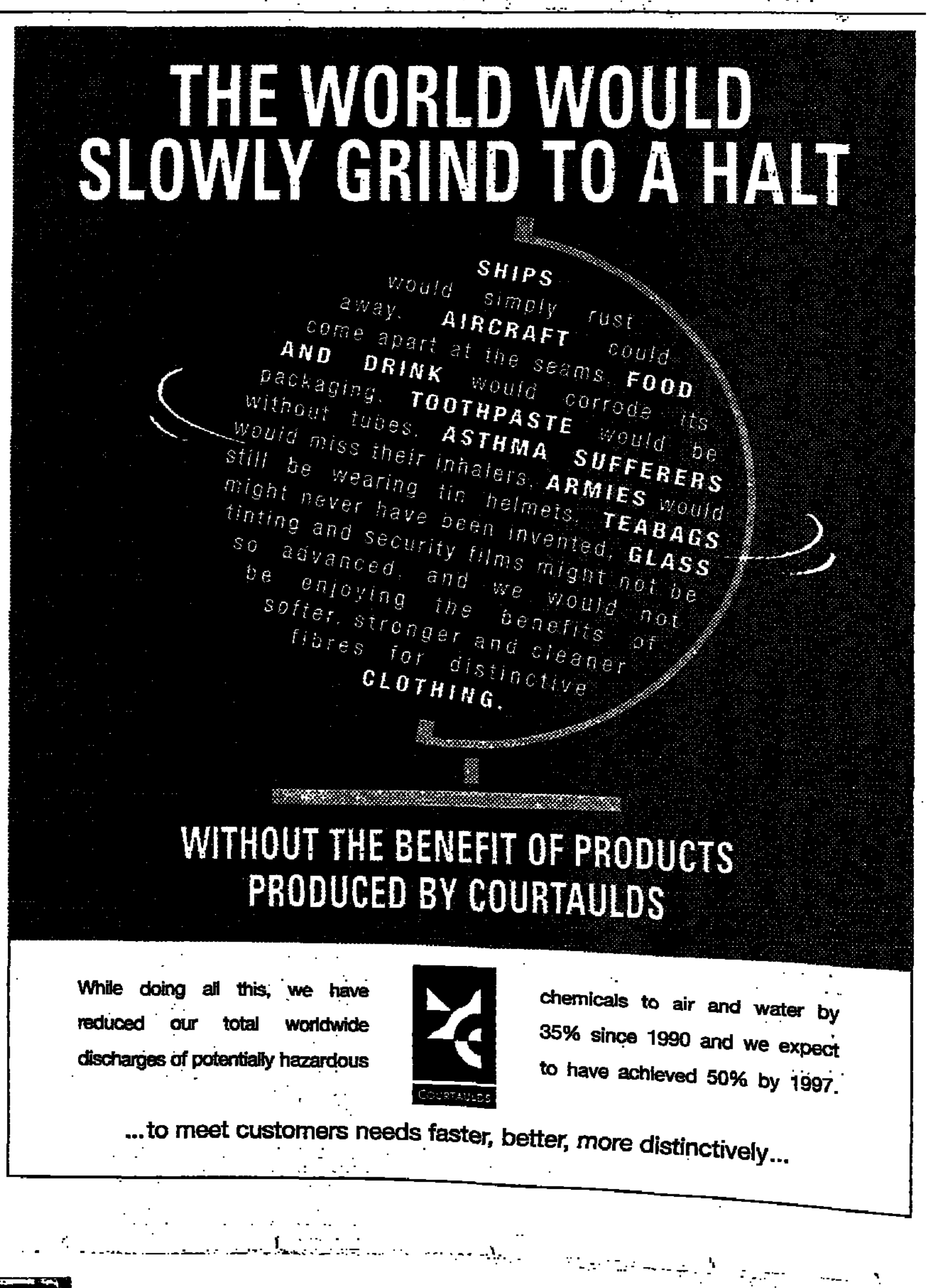
Examples might be products such as fire retardants, which kill people affected by fumes, but also save lives by preventing fires, and pesticides, which increase the risk of cancer in the form of residues, but also allow people to eat more fruit and vegetables, which reduces the risk of cancer.

However, not all costs and gains would be comparable in this way. In policy terms, judgements about the importance of incomparable or unquantifiable gains and losses will ultimately be reflected as financial expenditure, regardless of whether decisions are taken by applying valuation criteria during a CBA, or by completing the CBA with a list of losses and then making a financial judgement.

Either way, the role of a CBA is to inform policy-makers in making judgements about priorities. It is not a judgement in itself, and it is not a substitute for decision-making.

As an analytical tool it is far from perfect. In the absence of complete knowledge, numerous estimates and assumptions will need to be made, and the process can be time-consuming.

But in an area where the potential for losses looms large from all sides, it would seem irresponsible for policy makers to sidestep a consideration of what those losses might be.



While crop production is boosted by the use of chemicals, their presence in what we eat can also be harmful

Guardian of the yields

Without fertilisers, much of the world might go hungry, argues Jenny Luesby

There would be two ways of feeding the world's population without using chemicals. It could survive on half as much food, or wild land equivalent to the surface area of Europe could be brought into cultivation.

The chemical solution is to increase the productivity of existing agricultural land, and minimise the amount of food wasted after harvesting.

On the production side, the combined use of fertilisers and pesticides has more than tripled yields in the last three decades.

Fertilisers, alone, can lift output more than five-fold, by providing crops with essential nitrogen, phosphorous and potassium. Natural alternatives such as farmyard manure have a similar effect, but do not exist in sufficient quantities.

In the US, the department of agriculture estimates that manure could provide just 28 per cent of the nitrogen needed for current food output. Similarly, a regional sewage authority estimates that all of the US's urban sewage sludge would only replace 2 per cent of the nitrogen fertilisers made from chemicals.

As a result, more than 150m tonnes of chemicals are used in fertilisers each year.

Yields are further boosted by pesticides, which limit the damage to crops caused by weeds, parasites and fungal infections. Without such protection, rice yields would fall by 83.2 per cent, maize by 59.5 per cent and wheat by 51.9 per cent, according to a study by Hanover University.

Even plastics have helped raise output. Plastic sheeting retains moisture, suppresses weeds and extends the growing season, with black sheeting helping soil to warm more quickly, and white delaying the impact of frosts.

For these reasons, Chinese farmers are spreading an estimated 400,000 tonnes of sheeting over their land each year. Even so, Chinese demand for grain from the 200m-tonne world market has risen by 60m tonnes in four years.

This galloping demand growth is not a new phenomena. Since 1960, world consumption of grain has more than doubled. Yet plantings of grain have risen by just 2.6 per cent, thanks to the shift to intensive farming.

Dennis Avery, director of Global Food Issues at the US think tank, the Hudson Institute, argues that intensive farming has brought huge environmental benefits – by saving the cultivation of more than 10m square miles of wild lands.

The American Farm Bureau Research Foundation is similarly minded. If pesticides were banned, the acreage required for fruit and vegetable production would increase by 44 per cent, it estimates, and that would be after an 11 per cent fall in consumption as a result of price rises.

Across the board, rising agricultural productivity has cut prices. In constant dollars, average wheat prices were $90 a tonne in 1990, compared with $265 a tonne in 1950. Similarly, the real price of rice halved between 1966 and 1991.

Reversing these price movements would jeopardise the health of millions of people, argues Mr Avery, pointing to the increased risk of cancer when fruit and vegetables are stripped from the daily diet.

More than 100 studies have shown that five servings a day of fruit and vegetables halve the risk of cancer. Meanwhile, the US regulatory safety standard for pes*ticide residues is set at no* more than one additional theoretical cancer per million.

"We collect far more information to register a pesticide, than we do for a pharmaceutical compound used in human medicine," says Professor Sir Colin Berry, a pathologist and chairman of the British government's Advisory Committee on Pesticides.

In some areas pesticides even confer a health bonus. Microscopic organisms account for more than 95 per cent of all food-related diseases, with a quarter of the world's grains and oilseeds dangerously contaminated with toxins created by natural infections, according to the UN's Food and Agriculture Organisation.

The worst of these is aflatoxin, common in peanuts and described by Professor Berry, as "the most powerful carcinogen ever known". Aflatoxin causes liver cancer. In sufficient concentrations it kills immediately, as it did with 13 Malaysian children when a rice flour store became infected.

Fungicides can prevent this type of infection, as can food additives, packaging and refrigeration.

Without nitrate or nitrate preservatives, bacon, ham and cooked meats would be prone to highly dangerous toxins produced by bacteria such as clostridium botulinum. The chances of dying if botulism is contracted are about 70 per cent.

Similarly, acetic acid, or vinegar, is used to prevent bacterial growth in bread, while antioxidants prevent fats from going rancid and chocolate from "blooming". Preservatives also prevent fermentation, while anti-caking agents prevent dry food from solidifying into a single lump.

These are just some of the "tools with which to stop poisoning and spoilage," says Alec Kyriakides, Sainsbury's microbiologist.

Refrigeration, which relies on chemical coolants, also contributes. Sainsbury will not reveal how much of its own food is refrigerated. But in the UK as a whole, 30 per cent of electricity consumption is for refrigeration.

Shelf-life is further extended through plastic packaging, which prevents the breakdown of vitamins and airborne contamination as well as helping prevent damage in transit.

Together, such tools have made it possible to transport food around the world, translating potential seasonal gluts into round-the-year fresh produce for western consumers.

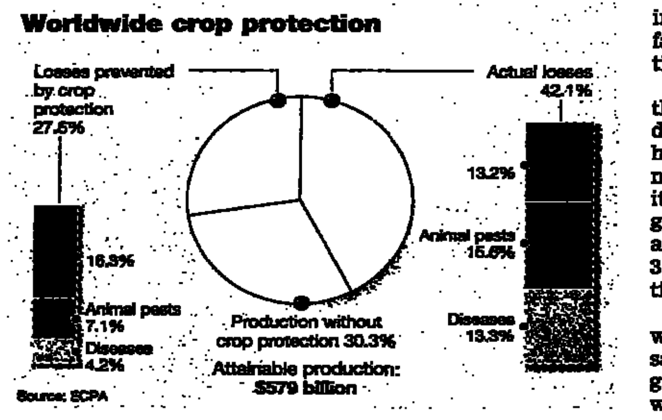
"In effect, we can follow the sun around the world," says Mr Kyriakides.

Chemicals also play a role in ensuring hygienic manufacturing, and food preparation.

In summary, the effects of their use are considerable. In developing countries, almost half of the food produced is never eaten, either because it is damaged in transit or goes off. In the west, wastage has been cut to between 3 and 4 per cent of production.

It would be possible to do without chemicals in food, says Mr Avery. "But who is going to volunteer to go without the calories?"

Worldwide crop protection



Source: ECPA

Healthy eating? Ingesting over long periods even low doses of approved additives may by risky, say consumer watchdogs — Tony Andrews

Risks lie in the residues

Campaigners argue that the industry is corrupting the human diet, says Alison Maitland

From phthalates in baby milk to pesticide residues in carrots, recent food scares have raised concern about the damage that chemicals may be causing in our diet.

Chemicals make their way into food in two principal ways. There are agrochemical residues, by their nature toxic, which must be kept at low levels if they are not to harm humans. And there are approved additives, used by food manufacturers to preserve the life of a product or enhance its appeal.

In both cases, ill-effects in humans are hard to prove, except in rare cases of serious poisoning, for example by misuse of pesticides. That has not lessened consumer watchdogs' concern about the effects of ingesting low doses over long periods.

In the developing world, misuse of agrochemicals can be a serious problem. A four-year study of fruit and vegetables in Pakistan, reported by the UK Pesticides Trust, an environmental charity, found 14 per cent of samples exceeded "maximum residue limits" set by the UN's Food and Agriculture Organisation. In some cases they were 30 times too high.

Two recent scares illustrate the problems associated with residues, even in western countries where agrochemical use is declining with the trend towards "greener" farming.

Lindane, an organo-chlorine insecticide, was found above legal residue limits in milk in the UK during five months last year. Banned or severely restricted in 30 countries, lindane can be transported aerially over long distances. Fears have been expressed over a possible link with breast cancer. But its use has fallen in the UK and officials were at a loss to explain how the sudden upsurge happened.

Mystery also surrounded the discovery in some carrots of unexpectedly high residues of organophosphate insecticides – which can have immediate toxic effects. Safety levels for humans were exceeded in some cases, and the government advised consumers to top and peel carrots and told farmers to reduce spraying.

In the light of incidents such as these, the Pesticides Trust campaigns not only for reductions in agrochemical use but also for better monitoring of residues, pointing to California's rigorous testing as a model.

Similar demands are made by consumer groups about food additives. Chemical processes make bread and cakes fluffier, meat more tender, peas greener and low fat spreads malleable. Only a tiny proportion of additives is used to preserve food, with an estimated 85 per cent of expenditure on additives going on chemicals such as sweeteners, flavourings and colourings. "It's debatable whether this kind of thing is really necessary," says the Consumers Association.

More than 400 additives are used in the European Union, mostly with an "E" number which signals approval for use. Some can provoke allergic reactions, notably in the small percentage of the population that is highly sensitive to chemicals, such as asthmatics and very young children. Critics argue that not enough is known about testing procedures, that many tests were carried out years ago and have not been updated, and that extrapolating from tests on rodents to humans is difficult because we have different sensitivities to toxic effects.

In addition to "E" additives, more than 3,000 flavourings are in use. The Food Commission, an independent research organisation campaigning for wholesome food, says that, because these do not have to be listed by name on labels, people with intolerances do not know what to avoid.

Artificial sweeteners have often had a bad press. High doses of saccharin have been found to cause cancer in male rats, and products containing saccharin have to carry a health warning in the US. "The evidence is difficult to translate into human terms," writes John Emsley in The Consumer's Good Chemical Guide. "Many other studies have failed to find any link between saccharin use and human cancers."

Aspartame has survived many criticisms of its safety and is also widely used, generating worldwide sales of more than $1bn, according to Emsley. The only accepted problem is that it must not be eaten by the 1 in 15,000 people who suffer from PKU, a condition which makes them sensitive to excess phenylalanine, an amino acid contained in aspartame and other foods.

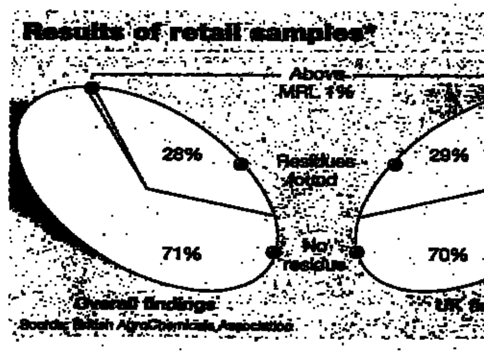
Direct effects aside, the irony of artificial sweeteners, Mr Emsley points out, is that they have not led to a decrease in the number of overweight people.

For health campaigners, this is part of the insidious corruption of the food chain by chemicals. Processed foods form an ever larger part of the western diet and cheaper artificial sweeteners replace – or are combined with – sugar in more and more foods and drinks.

UK government advisers recently expressed concern about the amount of saccharin being consumed by young children and called on soft drinks makers to recommend extra dilution.

According to the Food Commission, the malnutrition that has been reported in schoolchildren must be blamed partly on "the enormous market for low-quality foods that are tarted up with sweeteners, flavourings and colourings". It says these foods tend to be cheap, appeal to children and reassure parents with the words "added vitamin C" – another product of the chemical industry.

Results of retail samples



Source: British AgroChemicals Association

CASE STUDY Food packaging

Keeping it all under wraps

Plastics have transformed the food packaging industry. Not only do they protect food from environmental hazards and other forms of damage, they also allow the consumer to view it before making a purchase.

Clingfilm, for example, is now used in huge quantities to wrap meat, fruit and vegetables. There are two main types of clingfilm: one contains polyvinylchloride (PVC), the other does not.

Several years ago, consumers were warned that the phthalates, which are used as plasticisers in PVC, were harmful and the material should not be permitted to come into contact with food. Although food packaging companies say their films do not contain phthalates, consumers still prefer to use non-PVC film.

Plastic bags – made from polyethylene or polypropylene – provide short-term protection for food.

However, some foods, such as crisps and filter coffee, require longer-term protection from oxygen and moisture, and are usually stored in bags consisting of a thin film of aluminium sandwiches between two sheets of polypropylene.

Although vacuum sealing is still commonly used for cheese and bacon, much of the fish sold in supermarkets has been sealed under nitrogen. The sealed plastic containers prevent nitrogen from leaking out and oxygen from the air leaking in. The shelf-life of fish has been extended by three days.

High density polythylene is the plastic that makes plastic milk bottles an extremely light and durable form of packaging. Although this material is derived from fossil fuels, its production takes much less energy than that needed to produce a glass bottle.

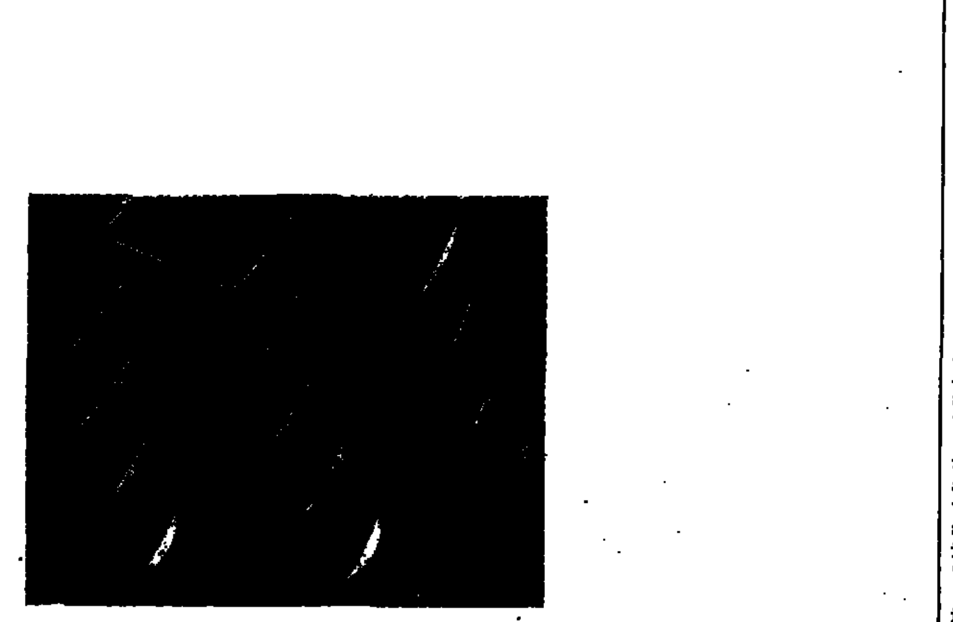
However, unlike their glass counterparts, they cannot be washed and reused because residue of the milk will always remain in the bottle as milk is absorbed into the polymer and can only be removed, if at all, by repeated washings over several days.

Fizzy drinks cannot be stored in polyethylene bottles as the polymer is permeable to carbon dioxide – the drink would go flat. Instead, several layers of polyethylene terephthalate (PET) are used.

This not only prevents the diffusion of carbon dioxide but also increases the strength and toughness of the bottle.

Many other examples of the role plastics play in food packaging can be found, ranging from polystyrene cups to sandwich boxes.

Carol Jones



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IN BRIEF

Lehman suffers earnings setback

Lehman Brothers, the first of the US investment banks to report third-quarter earnings, said net income fell to $77m from $108m in the second quarter. The result compared with $71m in the third quarter of 1995. Page 17

Tabacalera reveals bid plan

Tabacalera, the Spanish tobacco company, yesterday raised the stakes in the contest for control of Tabaqueira, its Portuguese counterpart, by proposing the privatisation of 100 per cent of the group instead of the 65 per cent planned by the government. Page 15

Acquisition helps Axa advance 52%

Axa, one of France's largest insurance groups, yesterday reported net income up 52 per cent to FFr1.98bn ($386m) for the first six months of the year after consolidating in its results National Mutual, the Australian life assurer in which it acquired a controlling stake last year. Page 14; Lex, Page 12; Bébéar under the Oriental influence, Page 14

LTCB plans Y100bn bad loan write-off

The Long-Term Credit Bank of Japan, one of the country's leading lenders, will write off at least Y100bn ($911m) in non-performing loans in the year to March. Page 16

Companies in this issue

Market Statistics https//www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Altana	1175	+	30
Bilfinger	65.9	+	2.4
Degussa	546.8	+	9.3
Preussag	392	+	5.5
Falls			
Gerresheimer	33.35	−	1.17
Holzmann	341	−	5
NEW YORK ($)			
Rises			
Apria Healthcare	17¾	+	3
Checkpoint	27¾	+	9
Falls			
Amer Residtl	17¼	−	2¼
Amway Asia	33¾	−	4
Cole National	22¾	−	2¾
Snyder Comm	21	−	4
LONDON (Pence)			
Rises			
Concentric	197	+	27½
Keller	185	+	10
Merlin	85	+	10
Falls			
Ashley (L.)	182½	−	11
Creighton's Nt	54	−	6
Scotswood	18½	−	4
TORONTO (C$)			
Rises			
Inter Island	5.55	+	1.05
Lindsey Morden	10.70	+	1.70
Mosaic Comm	5.65	+	1.05
Falls			
Cameco Resrcs	29.60	−	2.20
Euro-Nevada	39.20	−	1.75
Goldcorp Cls	12.60	−	1.20
PARIS (FFr)			
Rises			
AGF	143.5	+	3.7
AXA	297	+	11
GTM-Entrepose	285.5	+	11.4
Sab SA	917	+	26
Falls			
BIC	590	−	22
LVMH	1101	−	32
TOKYO (Yen)			
Rises			
Bank Tokyo-Mit	2330	+	60
Daikyo	748	+	24
Kyotaru	700	+	48
Shimizu	1080	+	50
Toshiba	741	+	36
Falls			
Daishowa Paper	709	−	26
HONG KONG (HK$)			
Rises			
Cons Elec Pwr	18.25	+	0.80
Esprit Asia	2.95	+	0.275
Shun Tak	5.10	+	0.55
Tricom Hldgs	1.18	+	0.41
Falls			
HKR Intl	8.80	−	0.20
Termbray Ind	22.05	−	0.55
BANGKOK (Baht)			
Rises			
Dusit Thani	31.75	+	2.75
Minor Corp	22.75	+	2.00
Robinson Dept	53.50	+	3.50
Saha Union	32.00	+	2.00
Falls			
PCM Precast	44.75	−	4.75
Srungpack	34.00	−	3.00

New York & Toronto prices at 12.30.

Hanson prepares to take his leave

By Ross Tieman in London

Lord Hanson yesterday set the seal on an era of British corporate history by announcing that he will retire from the chair of Hanson on September 30 next year.

His departure at the end of the next financial year, after 34 years as chairman, was announced as shareholders approved the demerger next week of Imperial Tobacco Group and Millennium Chemicals as part of a four-way split of the once-mighty conglomerate.

The retirement of Britain's most swashbuckling takeover king at the age of 75 will end more than three decades during which Hanson became the scourge of sleepy managements on both sides of the Atlantic.

Together with his partner Lord White, who died last year, Lord Hanson built a Yorkshire agricultural supplier, the Wiles Group, into Hanson, an international conglomerate with annual sales of £11bn ($17bn).

Both enjoyed jet-set lifestyles – Lord Hanson dated the actress Jean Simmons and was once engaged to another movie starAndrey Hepburn – while Lord White's stable of race horses funded by the company provoked outrage among shareholders when exposed.

However, the search for acquisitions big enough to bolster earnings became increasingly tough as the company swelled in size. And Hanson's unsuccessful 1991 siege of Imperial Chemical Industries backfired when ICI investigators exposed Hanson's heavy reliance upon tax avoidance devices.

Nonetheless, Lord Hanson once more seized the initiative in January this year. Eight days after his 74th birthday, he announced plans to break up the group that he had spent his working life assembling.

The break-up plan failed to halt the slide in the company's shares, which have slumped from a peak of 283p in 1998 to just 152¼p yesterday.

The failure of the break-up plan to stem the decline provoked sharp questions from one shareholder at yesterday's meeting. Mr Brian Peart, who holds 140,000 Hanson shares, said the combination of an excessive dividend and asset write-downs had been disastrous for shareholders in the past 18 months. But he was a lone voice of criticism.

Lord Hanson said he was confident the demerger was the best way forward for the group.

He said that the dividend "did get a little bit high" and "the business did get so big that it was unable to receive a shot in the arm from big acquisitions." But he insisted: "All these four grandchildren of mine are going to do extremely well when they are on their own."

Lord Hanson will become a consultant to the residual Hanson group, largely a building products company, after his retirement. But he said the extent of his involvement was still a matter for discussion with his wife, Geraldine.

Lord Hanson will remain chairman of the Hanson business until next September. He told shareholders: "Hopefully I shall be able to reduce my duties gradually as I go." Although he will remain a consultant, he said: "I do not want to be a back-seat driver."

End of a chapter, Page 11

Hanson, yesterday: 'I do not want to be a back-seat driver'

NatWest faces uncharted territory with 'golden scenario' of $5bn loan conversion

UK bank promises security for all

For Mr Martin Owen, chief executive of NatWest Markets, the $5bn corporate loan securitisation announced yesterday, represents a "golden scenario". In his view, it is good for the UK banking group's customers, good for investors buying the securities, and good for NatWest's shareholders.

Yet the length of time NatWest has spent wrestling over the structure of the securitisation, and the fact that no European bank has beaten it to the punch indicates that things are not quite that simple. NatWest has reason to await with trepidation the reaction of the 300 large companies whose loans are involved.

The theory of the deal is compelling. Banks have for a long time been struggling with the uncomfortable fact that lending to large companies is hardly worthwhile by itself. Margins on investment grade corporate loans have fallen below a fifth of 1 per cent because of competition among banks.

Furthermore, banks have been faced with an impossible task – trying to make a profit from lending to companies which can enjoy a lower cost of borrowing in the capital markets.

"We have been trying to intermediate for organisations who are better credits that we are. It does not really make sense," says Mr Owen.

Yet banks do not want to draw what might appear the logical conclusion: to stop lending to large companies. This is because they regard lending as a loss-leader. By giving a company a loan, they may persuade it to purchase other products, such as clearing services or foreign exchange.

NatWest's solution therefore has huge appeal if it works. A bank could in theory transform itself from a holder of company debt to an originator and distributor. It could retain all the valuable parts of its relationship with a company, and spin off the low-profit and capital-intensive elements.

NatWest is ambitious to go further than the $5bn deal that it intends to start marketing next month. Mr Owen envisages a world in which NatWest would have up to 30 "special purpose vehicles" holding $150bn of assets. These off-balance sheet loans would then dwarf those on its balance sheet.

If it only securitised the remainder of its general loans to big companies on its balance sheet, NatWest could free a further £400m of capital. The dividing line between commercial and investment banks would then become even more blurred. But NatWest must first address various obstacles.

The first is profitability. NatWest is undertaking the move to release capital, rather than to make money. However, it says that the securitisation will be done at a small profit because of two factors. The first is essentially due to a portfolio effect, and the second is due to a rise in liquidity.

By slicing up the corporate loans and re-packaging them in a variety of tranches of securities, NatWest says the overall credit quality will rise.

This is because a rating agency is likely to rate more highly an exposure to a range of loans, rather than an exposure to a single company.

This "actuarial" approach to corporate debt means that the securities will bear some similarity to traditional mortgage-backed securities. NatWest says this application is unique, and one US investment banker says it has probably not been done in the US because it would not be profitable.

The question is whether a bank can hope to make money by standing between customers and capital markets in this way. Companies may instead draw the conclusion that it will be cheaper for them to launch their own US commercial paper programme, rather than going through a bank.

The second obstacle is the need to preserve the advantages of the traditional banking relationship. Mr Owen insists the deal will be structured to do so. The 300 companies whose loans are to be repackaged will continue to deal directly with NatWest on the terms of their credit lines.

They will still be free to repay loans early, or draw down credit lines. NatWest will structure the securities to give it flexibility. As with mortgage-backed securities, the investors in the bonds will face an element of "pre-payment risk" since the underlying loans could be paid back early.

A more delicate point is what happens if the companies get into trouble. In a traditional banking relationship, NatWest would be free to take its own decision on whether to cut the interest payable or allow a payment "holiday". This is the ultimate test for the new securitised loan structure.

Mr Owen insists customers will see no difference in how they are treated. "We will remain responsible for all aspects of the relationship," he says. It remains to be seen whether all the corporate treasurers and finance directors involved turn out to be as sanguine as NatWest.

John Gapper

Martin Owen

Kirch takes on Premiere channel

By Raymond Snoddy in London and Frederick Studeman in Berlin

Kirch is to push ahead with the creation of channel showing exclusive films on its new digital satellite television service, DF-1. The move could, in the long term, damage Premiere, the pay-TV channel with 1.3m subscribers owned by Bertelsmann, the German-based international media group, Canal Plus of France and Kirch itself.

The decision to turn one of the three film channels on DF-1 into one showing latest-release films reflects Kirch's growing frustration with Bertelsmann, which owns 37.5 per cent of Premiere.

Kirch wants its new UK partner, BSkyB, to take a stake in Premiere, even though this is likely to raise competition issues at the German cartel office. BSkyB has a 49 per cent stake in DF-1, which launched 19 digital channels in July and has around 5,000 subscribers so far.

Kirch hopes that showing exclusive films on the new premium channel will help to drive subscriptions forward and gradually lure viewers away from Premiere. The move is also aimed at putting pressure on Bertelsmann to accept BSkyB as a Premiere shareholder.

Yesterday, Bertelsmann announced its first drop in operating profits for more than 10 years – an 8 per cent fall to DM1.5bn ($991m) mainly because of high paper prices and poor economic conditions.

The company made it clear it was concentrating on its free television operations, which are being merged with those of CLT of Luxembourg.

Mr Mark Wössner, Bertelsmann chief executive, said yesterday the company remained committed to Premiere, which had reached break-even after five years of operation and a total investment of DM700m. In August alone, Premiere added 50,000 new subscribers.

Mr Michael Dornemann, head of Bertelsmann's entertainment division, said that while he was sure pay-TV would eventually take off in Germany, it would remain a niche business for a while. Within 10 years, it might account for DM2bn of a total commercial television market of DM15bn, he said.

Bertelsmann is still in talks with other broadcasters about the development of digital pay-TV. Executives said they believed a compromise with Kirch might be reached under which DF-1 would be allied in some form with Premiere.

Lex, Page 12

Trafalgar sale drives Hongkong Land surge

By Louise Lucas in Hong Kong

Hongkong Land, the property arm of the Jardine Matheson group, yesterday reported a 148 per cent surge in net profits, from US$179.1m to US$445.3m, for the first six months of the year.

The result includes a $220.6m gain from the disposal of its stake in Trafalgar House, the UK conglomerate. Stripping out the disposal, Hongkong Land's net profits rose 10 per cent from $206.8m to $227.7m.

Hongkong Land sold its 26 per cent holding in Trafalgar House this year, when the construction, engineering and shipping group was taken over by Kvaerner of Norway. That deal resulted in a $343m cash payment for Hongkong Land, which led to a write-back of $245.6m in the first-half accounts. This was further trimmed by $25m, Hongkong Land's share of Trafalgar House's pre-tax losses.

Earnings per share at the interim stage rose 9.5 per cent, from 7.89 cents to 8.64 cents, excluding Trafalgar House. The directors are proposing to hold the interim dividend at 3.50 cents.

● Mandarin Oriental International, the hotel group controlled by Jardine Matheson, has reported a 24.67 per cent increase in net profits, from US$22.7m to US$28.3m for the first six months of the year.

Renault in price-cut offensive

By David Owen in Paris

Renault, the struggling French carmaker, yesterday launched an ambitious drive to win back lost market share in its home market by offering customers better value for money.

The company is cutting the price of some cars, offering more accessories with others without corresponding price increases and simplifying its product ranges.

The changes – which will apply to the Clio, Mégane, Laguna and Safrane models – are to come into effect on October 1. The price cuts will be between 2.5 per cent and 3 per cent.

Renault said it hoped its move would reduce the gap between sticker prices and actual prices which have come down sharply in France over recent months as a fierce price war has raged.

It predicted additional sales volumes generated by the initiative would generate "economies of scale to reinforce the cost reduction programme announced in March". This aimed to reduce the average production cost per car by FFr3,000 ($586m) – or about 8 per cent – by the end of next year.

Analysts said another effect of the move would probably be to increase pressure on Peugeot Citroën, Renault's arch rival, to follow suit.

Yesterday, however, Peugeot insisted that "nothing has been decided". Its stance remained that it would not seek to "gain volume by sacrificing margins".

Unlike Renault, whose car division this month reported a FFr911m first-half operating loss, Peugeot was "not losing money on cars".

Renault shares responded favourably to the announcement, gaining FFr4.70, or 3.9 per cent, in a buoyant Paris market to end the day at FFr123.80.

Peugeot shares added FFr10, or 1.7 per cent, rising to FFr582. The benchmark CAC-40 index climbed just over 1 per cent to 2,103.41.

Analysts said this positive market reaction was partly because of a feeling the company had tried to keep too firm a line on prices on some models to the detriment of market share.

French dash to buy cars, Page 3

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Acquisition helps Axa advance 52%

By Andrew Jack in Paris

Axa, one of France's largest insurance groups, yesterday reported net income up 52 per cent to FFr1.98bn ($386m) for the first six months of the year after consolidating in its results National Mutual, the Australian life assurer in which it acquired a controlling stake last year.

Strong performances from non-life insurance, its US financial services arm Donaldson, Lufkin & Jenrette, *and a contribution from the* Axa holding company also helped lift its profits substantially during the period.

Mr Claude Bébéar, chairman, *said he expected the* second half to be profitable and that he "would like" to report FFr4bn in profits for the full year, while cautioning that the "unexpected" could always put this growth in jeopardy.

Total revenues for the first half were up 9 per cent to FFr81.9bn, including a one-third jump in life assurance to FFr42.7bn, a 1 per cent increase in non-life business to FFr15.4bn, and a 31 per cent *growth* in reinsurance to FFr6.3bn. The contribution from financial services and holding companies rose 21 per cent to FFr17.4bn.

Net income from life assurance was down slightly to FFr504m, compared with FFr555m last time, while the contribution from non-life jumped from FFr320m to FFr610m.

Reinsurance grew from FFr193m to FFr221m and financial services from FFr397m to FFr618m. The holding companies generated FFr24m after a loss last year of FFr163m.

Mr Bébéar dismissed per*sistent speculation that Axa* was interested in acquiring UAP, France's largest insurer, which was privatised in 1994 and has been undergoing significant financial restructuring. "There are no negotiations with UAP or with anyone else," he said.

In an interview, Mr Bébéar also said that the group's recently opened life assurance operation in Japan was performing in line with its targets, and he was considering opening a non-life business in the country.

He stressed that National Mutual would act as the platform for increasing Axa's activities in Asia, and did not rule out future rights issues through its Australian subsidiary, which is to be quoted on the stock market from October 8. Axa holds 51 per cent in National Mutual, and he said that this figure could increase.

Mr Bébéar welcomed the French government's most recent proposals to launch private pensions, while cautioning that take-up in such schemes was likely to be slow.

However, he said Axa would be ready to launch private pension products from the beginning of next year.

See Lex

Bébéar under the oriental influence

Expansion in Asia is a high priority for the Axa chairman, reports **Andrew Jack**

Dominating one wall of the Paris office of Mr Claude Bébéar, Axa chairman, is a new ornament, which serves to highlight one of his most pressing business priorities. Alongside the hunting rifles, antique prints and glossy picture books stands an elaborately engraved eighteenth-century wooden Chinese screen, symbolising his increasing interest in the region.

With a successful New York Stock Exchange listing for his group launched over the summer, and sharply improved half-year results yesterday, Mr Bébéar is again turning towards Asia *in his efforts to diversify the* geographical reach of the group.

Early next month, a year ahead of the original plans, Axa will introduce to the stock exchange 49 per cent of National Mutual, the Australian life assurance group which it took over last year. Mr Bébéar is proud of the fact that more than 400,000 of the business' customers who were allotted shares have decided to hold on to them.

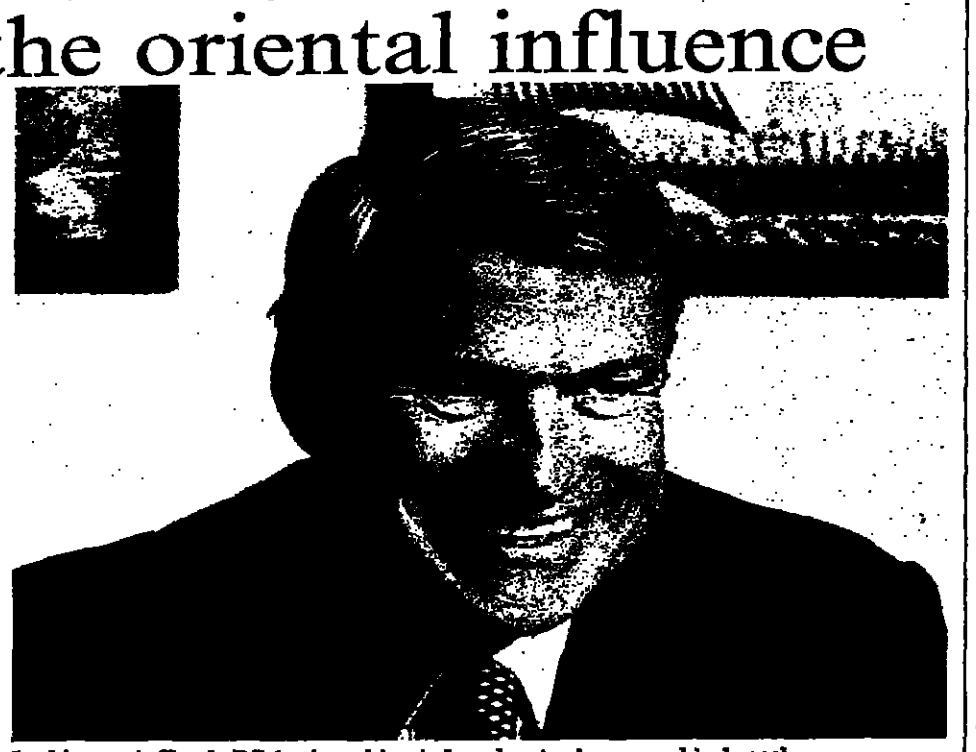
He sees National Mutual as the logical launching pad for Axa's interests in China and other parts of Asia, and hints that he may seek to use it for additional rights issues designed to fund future expansion in the region, while gradually increasing Axa's 51 per cent stake in the process.

While Mr Bébéar says that the lesson of the group's New York listing is the need "to be in permanent contact with investors", his oriental influence and his caution as a life-long insurer pulls him partly in the other direction. He argues, for example, that half-yearly results have little sense for his business. "It would be better to look at *three years than three* months," he says.

In the same vein, speaking *about the* very gradual progression of the group's new business in Japan, he says: "You have to be patient, like everywhere else in Asia. They are not quarterly-reporting countries. Their notion of time is very different."

He says he is considering opening a non-life business to add to the life assurance activities in Japan, and has applied to the Chinese authorities to open new offices there.

Earlier this month, he announced plans to invest $500m over the next few years in a direct investment vehicle in Asia.



Looking east: Claude Bébéar is seeking to broaden Axa's geographical reach

Closer to home, Axa has undergone considerable restructuring recently. Two weeks ago, it announced the unwinding of its links with the Italian insurer Generali in spite of initial expressions of interest in co-operation. "There are not many joint ventures in insurance," Mr Bébéar says. "They wanted to be free to invest in other companies."

One effect of the sale to Axa of Generali's remaining 11 per cent interest in the group has been to dilute the holding by Paribas, the French financial group. Mr Bébéar says this was necessary, in part because of US regulatory concerns that Paribas would otherwise have too great a control over its Equitable subsidiary.

But he rejects criticism of the remaining cross-shareholding between Axa and Paribas, arguing that while it could change in the future, the two groups have a "strategic partnership", including discussions over a joint project with Paribas' Compagnie Bancaire subsidiary.

In France, Mr Bébéar stresses the new flexibility of recent contracts signed with its independent "general agents", or sales staff, and the growing priority he is giving to reduced working hours for staff who want them, on condition that productivity does not suffer.

And he says he is prepared to launch private pension funds from the start of next year if current proposals by the government become law.

Merger charge hits Crédit National

By Andrew Jack

Crédit National, the French banking group, posted a first-half loss after a restructuring charge to cover its merger with Banque Française de Commerce Extérieur, approved late last year.

The group reported losses of FFr112m ($22m), compared with net income of FFr236m, or FFr267m based on pro-forma accounts allowing for the BFCE merger.

The loss at the group level included a FFr250m restructuring provision, partly to cover the merger with BFCE.

A further FFr350m restructuring charge has been taken in the subsidiary accounts of BFCE, reflecting the belief that redundancies would be evenly spread between the groups.

In line with a number of its competitors, Crédit National suffered from the depressed state of the French banking market, with pressure on margins on existing and new loans and a rise in risks. The group took new provisions of FFr4.1bn against doubtful loans.

Banking income rose sharply due to the merger, which was not included in the accounts for the first half last year. But in comparable terms it fell from FFr2.09bn to FFr1.98bn between the two periods.

Outstanding loans to French business fell 2 per cent to FFr143bn, offset by an 11 per cent rise to FFr40bn from international activities and 6 per cent to FFr49bn from specialist financing.

For the first half of 1996, gross sales of investments stood at FFr719m, compared with FFr614m for all of 1995 and FFr558m in 1994.

Mr Emmanuel Rodocanachi, chairman, said the group would withdraw from business to small companies, concentrating in France and abroad on large and medium-sized groups.

EUROPEAN NEWS DIGEST

Bayer finance chief rejects demerger

A demerger of Bayer into a chemicals and a healthcare company would incur a tax liability in excess of DM10bn ($6.7bn), according to its finance director, Mr Helmut Löhr. Speaking to London institutions yesterday, Mr Löhr said this had led the German chemicals group to reject splitting itself in two. "A demerger is supposed to create shareholder value," he said, "and a cost of this size would be extremely hard to make up".

Mr Löhr said the tax charge was unavoidable under German *law, though* depending on the financial structure used it would either be borne by the company or fall directly on shareholders. He added that Bayer also believed there were significant synergies between its two business areas, which further *undermined* the logic of a demerger. "Demergers and spin-offs with the main aim of a quick hike in the share price should and will be rejected", he said. Bayer's attitude is in contrast to that of its rival Hoechst, which has *taken steps to set up its* pharmaceutical division, Hoechst Marion Roussel, as a separate legal entity. Hoechst plans eventually to float HMR on the New York Stock Exchange. *Daniel Bögler*

Seat sees turnround

Seat, the Spanish subsidiary of Volkswagen, the German carmaker, expects to report net profits of nearly Pta3bn ($24m) in 1996, against losses in 1995, according to Mr Juan Llorens, chairman. In the eight months to August, Seat posted net profits of Pta2.75bn on a 32 per cent increase in sales to Pta390.5bn. In an interview with the Expansion financial daily, Mr Llorens said Seat was expected to post sales of more than Pta600bn in 1996, up from Pta456bn in 1995. Mr Llorens ruled out the need for any new cash injection by VW *despite* debts of Pta385bn. *AFX News, Madrid*

Zurich in Norwegian bid

Zurich Insurance of Switzerland said it would make a SFr44 a share bid for all the shares of Protector Forsikring, a Norwegian insurance company. Zurich said Protector's board had approved the bid and recommended it to shareholders. The bid values Protector at about SFr105m ($87m), and corresponds to a premium of 38 per cent over average value of the Norwegian company's shares for the five days to September 20. *AFX News, Zurich*

Greek deal for Charterhouse

The Greek government has chosen Charterhouse, the UK investment bank, to advise on the privatisation of Bank of Crete, which has been administered by the central bank since a $200m embezzlement scandal was revealed in 1988. The offer is for 97 per cent of the bank's equity, with the remaining 3 per cent reserved for employees. *Kieran Hope, Athens*

Hoechst in Turkish venture

Hoechst, the German chemicals company, and Sabanci Holding, a Turkish industrial company, are investing $100m in a joint venture in Izmit, Turkey, to make a special grade of polyester chord for tyres. The venture, in which each has 50 per cent, will begin production in 1999, the two companies said yesterday. Hoechst's stake in the business will be managed through Trevira, its polyester and cellulose acetate division. *Peter Marsh*

SAINT-GOBAIN

SAINT-GOBAIN
NET INCOME OF 2.05 BILLION FRENCH FRANCS FOR THE FIRST HALF YEAR 1996

The **consolidated net income** for the first half year 1996 amounts to 2,048 million French Francs against 2,166 million French Francs for the first half year 1995. The improvement of the Group's American operations compensates for the downturn in the European economies.

The key consolidated figures are as follows in millions of French Francs:

First half year	1995	1996
Sales	34.955	40.003
Operating income	4.036	4.277
• Financial charges, net	(406)	(554)
• Reorganisation and other costs	(442)	(514)
Income before tax and before results of sales of non-current assets	3.524	3.543
• Results of sales of non-current assets	224	24
• Income tax	(1.233)	(1.072)
Net income before minority interests	2.463	2.383
Net income	2.166	2.048
Resources from operations (cash flow)	4.560	5.053
Capital expenditure on plant and equipment	1.980	2.955
Acquisition of investments	1.224	2.429
Net indebtedness	2.245	6.774

The Group's **sales** increased by 14.5% on a real structure basis, mainly due to the integration of Ball-Foster in the United States in the Containers Division and, in the Industrial Ceramics and Abrasives Division, of Carborundum, Winter and Cerasiv. On a comparable structure basis they are up 0.5% after translation into French Francs and 1.2% in local currencies.

Sales *are split* as follows: France, domestic market 17%, exports from France 10%, other European countries 37%, countries outside Europe 28%. Sales volumes and prices were disappointing in Europe, especially in Germany and France, while activity remained sustained in North America and Latin America.

Operating income is up 6% in real terms. Despite good control of overheads, it represents 10.7% of sales against 11.5% previously because of lower European profitability in products linked to the building market.

Income before tax and before results of sales of non-current assets remains at the same level as the previous year, after stable dividend income from non-consolidated subsidiaries, and higher net financial charges and other costs.

Net income of 2,048 million French Francs is down 5% compared to that of the first half year 1995.

The analysis of results by **industrial activity** highlights the deterioration of the profitability of the Flat Glass and Insulation Divisions, which have been hit by the slowdown of the European economies in the building activity. The profitability of the Containers, Fibre Reinforcements, Building Materials and Industrial Ceramics and Abrasives Divisions has improved significantly.

The review by **geographical area** shows that the results of the American operations benefitted from the dynamism of their economies.

Cash flow increased by 500 million French Francs and represents a percentage of sales close to that of the first half year 1995.

Net indebtedness *is 2,800 million French Francs over that at December 31, 1995* due to the dividend payable and to a return to a high level of capital expenditure and share acquisitions.

Compagnie de Saint-Gobain, the parent company, recorded a trading profit of 1,115 million French Francs, against 1,005 million French Francs for the first half year 1995.

September 19, 1996

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هكذا من الأصل

High paper prices hurt Bertelsmann

By Frederick Stüdemann in Gütersloh

Bertelsmann, the German media group, yesterday announced an 8 per cent drop in operating profits to DM1.5bn ($991m) for the year 1995-96, although a lower tax charge lifted the net figure from DM317m to DM306m.

Mr Mark Wössner, chief executive, said high paper prices and poor economic conditions in the group's European markets were the main cause of the fall in operating profit, the first in more than 10 years. Increases in paper prices alone added DM200m to group costs.

Sales rose 5 per cent from DM20.5bn to DM21.5bn. BMG Entertainment, the television, film and music division, generated sales of DM8.6bn. The book division, which includes publishing and book club activities, had sales of DM6.9bn.

Mr Siegfried Luther, chief financial officer, said Grüner + Jahr, the newspaper and magazine subsidiary, and the book division accounted for more than 60 per cent of profits. Entertainment accounted for 20 per cent while printing activities contributed about 15 per cent.

Mr Wössner said that while Germany remained sluggish, international markets – where Bertelsmann does two-thirds of its business – had been highly encouraging. Music sales in Japan had grown by 50 per cent to DM700m. Music also spurred growth in the US, where sales rose 6.2 per cent to DM5.3bn.

Regarding the group's television activities, Mr Wössner underscored Bertelsmann's recent withdrawal from digital pay-TV in Germany. While the battle with the Munich-based Kirch Group over Hollywood programming rights and decoder technology had generated headlines, it was, he said, "only 2 per cent of the [Bertelsmann] story".

In spite of the developments in digital pay-TV, Mr Wössner said Bertelsmann remained committed to Premiere, the subscription television channel which is broadcast using traditional analogue technology and is co-owned with Kirch and Canal Plus of France.

The probable collapse of MMBG, a consortium established by Bertelsmann, Canal Plus, Deutsche Telekom and Germany's public sector networks to create a common broadcast platform and decoder standard, would probably lead to "double-digit millions" losses, said Mr Luther.

Bertelsmann would now concentrate on its existing free-tv activities, which are being merged with CLT of Luxembourg. The resulting company would have sales of DM5bn and be Europe's largest commercial television company.

New media activities, such as online services, continued to grow. AOL Europe, the online subsidiary jointly owned with America Online, has 200,000 subscribers. In the coming year, Bertelsmann expects a three-fold increase in subscriber numbers and sales of DM100m.

By 2000, when Bertelsmann says 45 per cent of its sales will come from multimedia, television, film and music, AOL is forecast to have 2m subscribers and sales of DM2bn.

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Compart lifts holding in Montedison

By Andrew Hill in Milan

Compart, formerly Ferruzzi Finanziaria (Ferfin), confirmed yesterday it was gradually reinforcing its stake in Montedison, the Italian industrial holding company.

Compart said it had bought 2 per cent of Montedison since mid-February, taking its stake to just over 33 per cent. At current prices, the 2 per cent stake would be worth some L72bn ($47.3m).

Compart, which first announced it was buying more shares in August, said it had acted "on the indications expressed by the board", but did not say why it was increasing its holding. However, it is understood that the stake could be increased further – a move which could stir up a new controversy over the structure of the linked holding companies.

Montedison announced a consolidated profit of L596bn before tax and minority interests for the first six months of 1996, against L1,663bn in the equivalent period, which included a L885bn capital gain from the formation of the Montell polypropylene joint venture with Shell. The group said half-year net profit, based on an estimated tax charge, was L108bn – about the same as the equivalent period if the Montell gain was stripped out.

Compart announced a half-year consolidated profit of L186bn after tax, against L287bn, including L272bn from the Montell operation. The Compart parent company also returned to net profit for the first time since 1991, two years before corruption and mismanagement brought Ferfin and Montedison to the brink of collapse.

Since then, debt restructuring and disposals have reduced debt at Montedison to L9,341bn at June 30, down L497bn on the December 31 figure, and at Compart to L11,602bn, down L1,530bn over the first half.

Montedison, which also announced that Price Waterhouse had offered to settle claims for damages, said trading conditions had improved in July and August.

Earlier this year some shareholders suggested that a gradual break-up of Montedison, into the separate activities of agribusiness, pharmaceuticals and energy, might realise more value for investors. Montedison's shares have underperformed the Milan market since last year's abortive proposal to merge Compart, then known as Ferfin, with Gemina, the Italian investment company.

Since then, Codelouf, a Gibraltar-registered fund which proposed the break-up, has sold almost all its stake in Montedison. Compart has reshuffled its board to take account of the formation of a new core of shareholders, led by Mr Luigi Lucchini, the steel magnate who is chairman of both companies.

Stet optimistic after 25% rise at halfway

By Andrew Hill

Stet, the Italian telecommunications holding company, increased pre-tax profit by 25 per cent in the first half of 1996 before extraordinary items.

The group, which is earmarked for full privatisation in the first half of next year, recorded a first-half profit of L4,041bn ($2.65bn) before tax and extraordinary items, against L3,225bn in the six months to June 30, 1995. After extraordinary items, the group recorded a pre-tax profit of L3,875bn, compared with L3,447bn.

Stet – 63 per cent of which is controlled by Iri, the Italian state holding company – said it was expecting the full-year result to be "significantly better" than last year, when the group made a profit of L5,781bn before tax.

Analysts said the interim profit was in line with expectations, but growth in turnover – which rose from L17,981bn to L19,642bn – was faster than forecast. "Revenue growth of 9 per cent is pretty healthy," said Mr Paul Norris of Lehman Brothers in London, who had forecast a 7 per cent increase in turnover.

Stet itself controls majority stakes in Telecom Italia, the main domestic telephone operator, and Telecom Italia Mobile, the mobile phone company, both of which are quoted.

On Tuesday, Telecom Italia reported a pre-tax profit of L2,629bn for the six months to June 30, an increase of 27.3 per cent on the equivalent period allowing for last summer's demerger of Telecom Italia Mobile.

Telecom Italia also confirmed it had scaled back its ambitious project to link 10m Italian families to a broadband multimedia cable network by the end of the century. The target is now 5.5m, which the company said took account of "the most recent market forecasts on the supply of and demand for [multimedia] services".

Net debt at Stet has come down sharply over the last year from L18,000bn at June 30, 1995 to L14,337bn on June 30 this year.

The much-delayed sale of Iri's majority stake in Stet is now expected to take place before March 1997.

Meanwhile, Iri is working on the demerger and sale of Seat, Stet's profitable publishing arm, and examining the future of Stet's stakes in Sirti, the contracting business, and Italtel, the equipment manufacturing operation.

The aim is to raise money to reduce Iri's debt, in line with a 1993 agreement with the European Commission on ending state subsidies.

Tag Heuer increases share offer by SFr150m

By Richard Lapper, Capital Markets Editor

Tag Heuer, the Swiss luxury watch manufacturer, yesterday increased the amount of its forthcoming international share offer by about SFr150m ($121m), following strong interest from investors.

Assuming the company's shares are sold at the top of the indicative price range of SFr215 to SFr245 a share, the decision will increase the overall size of the deal from about SFr450m to nearly SFr600m.

Investors have become increasingly enthusiastic about branded luxury goods companies, which are seen to have good growth prospects, especially in Asia. This month a DM168m ($113m) issue for Leica, the German luxury camera and optics manufacturer, was more than 20 times subscribed. Shares in Gucci, the Italian fashion house, have risen sharply since it was floated last year.

Tag Heuer said this month it was seeking to sell a total of 1.84m ordinary shares and American Depositary Receipts. About 70 per cent of these would have been new shares.

Yesterday's decision means the total shares on offer will increase to 2.44m, and has been made possible through an increase in the size of the secondary offer. Doughty Hanson, the venture capital company, would reduce its stake, from nearly 40 per cent to about 10 per cent.

Pricing is expected tomorrow, when trading will begin on the Swiss Exchange and New York Stock Exchange.

Salomon Brothers and SBC Warburg are acting as joint global co-ordinators of the flotation. Salomon Brothers and SBC Warburg are joint book-runners of the international tranche and Salomon is also book-runner on the US tranche.

Separately, SBC Warburg, Lehman Brothers and Banco Essi of Portugal, have been confirmed as global co-ordinators of a global offering of shares in Telecel Comunicações Pessoais (Telcel), the Portuguese mobile telephone company.

Full sale of tobacco producer proposed

By Peter Wise in Lisbon

Tabacalera, the Spanish tobacco company, yesterday raised the stakes in the contest for control of Tabaqueira, its Portuguese counterpart, by proposing the privatisation of 100 per cent of the group, instead of the 65 per cent planned by the government.

The proposal came as a consortium led by Tabacalera bid Es36.5bn ($237m) for the 65 per cent of Tabaqueira on offer. The offer is at least 9 per cent higher than two rival bids made by groups headed by Philip Morris, the US cigarette maker, and Seita, the French tobacco company.

If the Portuguese government's decision goes in favour of the Tabacalera group's bid, it will propose the immediate flotation of the remaining 35 per cent on the Lisbon stock exchange, in an offer directed at small investors, the group said yesterday.

The finance ministry currently envisages privatising the 35 per cent holding no earlier than 1999. But Tabacalera clearly hopes for a positive response from a socialist government keen to increase privatisation revenue and committed to dispersing the ownership of privatised companies among small savers.

The government is to choose between the three bidders for the 65 per cent of Tabaqueira in October.

Tabacalera, in partnership with Empresa Madeirense de Tabacos, a Portuguese tobacco company, has offered Es5,610 each for the 6.5m shares on offer. Philip Morris, allied with the Portugal's Jorge de Mello group, has bid Es5,100 a share. Seita is offering Es4,800.

Tabaqueira is estimated to account for about 75 per cent of tobacco sales in Portugal. EMT, the only other Portuguese cigarette manufacturer, produces for the islands of Madeira and the Azores.

In addition to the price, proposals by the contenders to support Portuguese tobacco brands and invest in tobacco growing in Portugal are expected to weigh heavily with the government.

Tabacalera argues that Philip Morris would promote international cigarette brands such as Marlboro in Portugal, at the expense of local brands. Over the last three years, Tabaqueira has lost more than 20 per cent of its market share to international brands, according to the Tabacalera group.

EUROPEAN NEWS DIGEST

Deutsche Bank under review

Deutsche Bank, Germany's biggest bank, has been placed under review by Moody's Investors Service, the international rating agency, for a possible downgrading of its triple-A senior long-term debt, deposit and counter-party ratings Other ratings of the bank and of Morgan Grenfell, its investment banking subsidiary, are also under review. Moody's said the review would focus on the impact of "adverse secular trends" in Deutsche's domestic market and the earnings volatility and risks resulting from the group's "aggressive global expansion strategy".

The bank, one of the few with a triple-A rating, said Moody's was correct in describing the difficult banking environment which corresponded with its own evaluation. "We cannot perceive why Moody's takes up this analysis at this point in time to place the ratings under review." The bank was convinced it would prevail "under increasingly tougher global competitive conditions". *Andrew Fisher, Frankfurt*

Prospectus from Telekom

Deutsche Telekom, the German telecoms group which is to be partially privatised in November, will publish a preliminary sales prospectus with further details about one of the world's biggest share issues on October 4. A final prospectus, which will give a range for the final share price, will be published three weeks later. Shares begin trading on November 18. Mr Ron Sommer, Deutsche Telekom's chief executive, said more than 2m people had shown interest. *Michael Lindemann, Bonn*

Further delay for UBS

Union Bank of Switzerland's plan to modernise its capital structure, which has already been delayed by two years because of legal challenges, is likely to be delayed by at least another year. Mr Martin Ebner, the Swiss financier, signalled yesterday he would appeal against a ruling by the Zurich Commercial Court, which had dismissed his case questioning the validity of the decision of UBS's extraordinary general meeting in November 1994 approving the introduction of a single class of share. *William Hall, Zurich*

GBL advances

Groupe Bruxelles Lambert, the Belgian holding company, posted first-half net profits, excluding minorities, up from BFr3.98bn to BFr4.46bn ($143m). Earnings per share rose from BFr169 to BFr190. *Reuter, Brussels*

Lafarge slides 53%

Lafarge, the French construction materials group, yesterday reported a 53 per cent slide in first-half net profits to FFr545m ($107m). The business was hit by bad weather and weak building industry demand. It also lacked the exceptional items that lifted first-half net profits to FFr1.15bn in 1995. Sales were static at FFr15.9bn, but operating profits fell 26 per cent from FFr1.66bn to FFr1.23bn. *David Buchan, Paris*

Navigation Mixte rebounds

Navigation Mixte, the French holding company, posted net first-half profits of FFr651m compared with a restated loss of FFr65m. Sales fell 2.8 per cent from FFr8.242bn to FFr8.054bn. *AFX News, Paris*

IMI confident

IMI, the Italian the banking group, posted first-half parent profits up from L210bn to L341.5bn ($224m). It said it expected consolidated 1996 net profits to be stronger than 1995's L552bn, although not as big in percentage terms as the 62.4 per cent jump in group net profits recorded in the first half. *Reuter, Milan*

Air Liquide up 1.7%

Air Liquide, the French industrial gases group, posted first-half net profits up 1.7 per cent, from FFr1.32 to FFr1.34bn. Sales rose 5.2 per cent from FFr15.83bn to FFr16.66bn. *David Owen, Paris*

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Floating Rate Notes Due 1997

In accordance with the provisions of the Floating Rate Notes, notice is hereby given as follows:

Interest Period : September 25, 1996 to March 25, 1997 (181 days)

Rate of Interest : 5.9375% per annum

Coupon Amount : US$2,985.24 (per note of US$100,000)

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Floating Rate Notes due 1999

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 23rd December, 1996 has been fixed at 6% per annum. The interest accruing for such three month period will be £149.18 per £10,000 Bearer Note, and £1,491.80 per £100,000 Bearer Note, on 23rd December, 1996 against presentation of Coupon No. 11.

Union Bank of Switzerland London Branch Agent Bank

23rd September, 1996

Notice of Bondholders' Additional Option to Redeem Bonds

STC CORPORATION

(Incorporated in the Republic of Korea with limited liability)

To the holders of the Company's

U.S. $30,000,000

1¼ per cent. Convertible Bonds Due 2004

(Redeemable at the option of the Bondholders in 1996)

(the "Bonds")

Notice is hereby given that STC Corporation (the "Company") has, in accordance with Condition 12(b) of the Bonds and with the agreement of Bankers Trustee Company Limited, the trustee for the Bondholders (the "Trustee"), amended the Terms and Conditions of the Bonds by a Supplemental Trust Deed dated 24th September, 1996 and entered into by the Company and the Trustee. The Company has amended the Terms and Conditions of the Bonds to provide for an additional put option exercisable on 29th November, 1996 at 144.8 per cent. of the principal amount of such Bonds together with interest accrued to the date of redemption, which will result in the Bonds yielding an average interest return over their life of 6.51 per cent. per annum.

All Bondholders contemplating taking any action in respect of the matters contained in this notice should seek independent advice as to their tax position and, if in any doubt, should also seek independent financial advice.

Copies of the Supplemental Trust Deed which implements the above amendments are available at the specified offices of each of the Paying and Conversion Agents set out below.

PAYING AND CONVERSION AGENTS

Bankers Trust Company
1 Appold Street, Broadgate
London EC2A 2HE

Bankers Trust Luxembourg S.A.
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Credit Suisse
Paradeplatz 8
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Switzerland

Dated: 26th September, 1996 Issued by: STC Corporation

Hanwha Chemical Corporation

(formerly Han Yang Chemical Corporation)

(Incorporated in the Republic of Korea with limited liability)

Notice of Bondholders' Additional Option to Redeem Bonds and Right to Revoke Notices of Redemption

To the holders of the Company's

U.S.$56,000,000

3½ per cent. Convertible Bonds Due 2006

(Redeemable at the option of the Bondholders in 1996 and 1998)

(the "Bonds")

NOTICE IS HEREBY GIVEN that following the execution by Hanwha Chemical Corporation (the "Company") and Bankers Trustee Company Limited (the "Trustee") of a First Supplemental Trust Deed dated 13th August, 1996 which amended the Terms and Conditions of the Bonds (as more fully described in the notice to Bondholders which appeared in this newspaper on 20th August, 1996), First Securities Co., Ltd., KDB Bank (UK) Limited and KEB International Ltd. (together the "Co-Arrangers") have now calculated the percentage of principal amount at which Bonds to be redeemed on 4th October, 1999 will be redeemed (the "1999 Put Price").

The 1999 Put Price has been calculated by the Co-Arrangers acting together in accordance with the formula set out in the First Supplemental Trust Deed defined above and has been set at 145.252 per cent. of the principal amount of the Bonds.

All Bondholders contemplating taking any action in respect of the matters contained in this notice should seek independent advice as to their tax position and, if in any doubt, should also seek independent financial advice.

Copies of the First Supplemental Trust Deed which implements the above amendments are available at the specified offices of each of the Paying Agents set out below.

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26th September, 1996 Issued by: Hanwha Chemical Corporation

COMPANIES AND FINANCE: ASIA-PACIFIC

LTCB plans Y100bn write-off of bad loans

By Gerard Baker in Tokyo

The Long-Term Credit Bank of Japan, one of the country's leading lenders, will write off at least Y100bn ($911m) in non-performing loans in the year to March.

The move is the latest stage in the bank's efforts to rid itself of bad loans accrued in the last five years, following the collapse of Japanese asset prices.

The bank would not disclose exactly how much would be written off, saying only that it would be more than Y100bn. At the end of March, it had total non-performing loans of Y1,036bn, and a further Y181bn in loans to companies receiving financial assistance. It had made total specific loan loss provisions of Y430bn and written off more than Y600bn in bad debts.

LTCB, which has had one of the heaviest non-performing asset burdens of all Japanese banks, has also been among the most active in restructuring its balance sheet in the last year. It has sold several overseas subsidiaries, and in January announced a plan to reduce the size of its loan book through increased securitisation, a measure aimed at improving its capital adequacy.

However, the bank admits it still cannot not say when the adjustment of its balance sheet to the problems of the last few years will be complete. LTCB said it would stick to its forecasts, made in May, for the year to March. It expects a core business profit of Y150bn, down from Y204bn last year, and recurring profit – before extraordinary items and tax – of Y20bn, against a loss last year of Y110bn.

Isetan considers fresh action in Barney's row

By Emiko Terazono in Tokyo

Isetan, the Japanese department store group, has hit back in its licensing tussle with Barney's, the New York retailer, threatening fresh legal steps against the US group.

The Japanese retailer's move follows recent attempts by Barney's to terminate its licence agreement with Isetan over Barney's Japan, of which Isetan has 80 per cent control.

Barney's last week filed a petition with the American Arbitration Association to terminate its licence agreement, and is also seeking to prohibit the use of Barney's New York trademark by Isetan. It said Isetan had stopped paying royalties to Barney's in January last year in violation of the licence agreement. The US retailer demanded $60m and also called for the revocation of Isetan's interests in Barney's.

The Japanese retailer said it had yet to decide how to respond to Barney's action, but was confident it would win if it took the US group to court. "Theirs is a one-sided argument," Isetan said.

Isetan had been funding Barney's expansion in the US in exchange for the US retailer's merchandising know-how, on the basis of a tie-up in 1989.

However, the lavish expansion backfired and the relationship turned sour in 1994 when the Japanese retailer turned down requests for money from Barney's.

The US group subsequently stopped rent payments on its stores to Isetan, and in January this year filed for protection from creditors under US bankruptcy laws. The two sides have filed lawsuits against each other over the rent and loan arrangements.

Isetan was forced to write off Y34.4bn ($312m) last year relating to losses on loans to Barney's, which resulted in a unconsolidated net loss of Y31.8bn – its first deficit.

Isetan denied any suggestions of ending operations at Barney's Japan, which is enjoying brisk sales and profits because of the revival in demand for luxury goods.

India to renew sale of state holdings

By Tony Tassell in Bombay

The Indian government has cleared the way for sale of equity in two state-run companies over the next few months in an attempt to revive its programme of partial privatisation.

Government officials indicated that about 5 per cent of Indian Oil Corp, India's only Fortune 500 company, and 7 per cent of Videsh Sanchar Nigam (VSNL), the international telecommunications carrier, are likely to be offered for sale. Analysts estimate this could raise about $180m on the VSNL stake and about $350m on the IOC shares. Both international and domestic offerings are being considered.

However, the move is unlikely to prevent the Indian government from falling far short of its target of raising Rs50bn ($1.4bn) through the sale of shares in state-owned companies in the year to March.

Mr Anand Tandon, executive director at brokers InvesTrust, said the target was "not at all achievable" given the government's lack of a clear privatisation strategy. As with the sales of shares in IOC and VSNL, the government had adopted a piecemeal approach to privatisation, selling off small equity stakes rather than majority control.

If the sales go ahead at the anticipated sizes, the government's stake in VSNL will be reduced to 78 per cent and in IOC to 86 per cent.

ASIA-PACIFIC NEWS DIGEST

Sampoerna behind Astra share rally

Mr Putra Sampoerna, the tobacco magnate, was revealed yesterday as one of the buyers behind the rise in shares of Astra, the Indonesian car-to-plantations conglomerate, in heavy trading this week. His tobacco company said he had been buying the stock because it was cheap, but declined to give details.

The statement cast some light on a situation that has gripped the market. Astra shares rose from Rp4,250 on Friday night to a peak of Rp4,750, before declining yesterday to close at Rp4,600. The rally has fuelled speculation that Astra, which faces stiff competition from Indonesia's new "national car", may be the subject of a campaign to spin off its telecommunications, heavy industry, financial services and plantations businesses.

Astra blamed the national car plan when it announced flat first-half net profits in August. Under the controversial scheme, a company controlled by Mr Hutomo Mandala Putra, President Suharto's youngest son, is to receive tax concessions for developing a car on the understanding it will involve high local content.

Analysts believe Astra needs to invest some $500m to develop its component business, to qualify for similar concessions. They say other Indonesian investors are buying its shares and may plan eventually to divide the company's assets between them. The company has declined comment.

Manuela Saragosa, Jakarta

Deutsche lifts Manila equity

Deutsche Bank, one of 10 foreign banks to have been awarded a licence to operate in the Philippines last year, is to increase its local equity capital more than 10-fold to 2.5bn pesos (US$95m). The move will enable the German bank to apply for a universal banking licence in the Philippines. This, in turn, will allow it to underwrite corporate deals and fund property development.

Edward Luce, Manila

Ampolex, GPG reach accord

Ampolex, the Australian oil company, has settled a long dispute with Guinness Peat (GPG), the UK investment group, over an issue of convertible notes. Ampolex directors said yesterday full terms of the settlement were confidential, but the company would in effect pay GPG and County NatWest, the investment bank, A$17.9m (US$14.1m).

The dispute relates to a claim by GPG that an Ampolex convertible note trust deed implied a rate for conversion into the company's shares of 6.6 to one, rather than the one-to-one ratio claimed by Ampolex.

Bruce Jacques, Sydney

Tax-weary brewer seeks relief in foreign markets

With sales at home slipping, San Miguel is investing heavily in overseas expansion

The inauguration of San Miguel's new HK$1bn (US$129.3m) brewery in Hong Kong this week dove-tailed neatly with the Philippine beer group's decision to close its largest domestic bottling plant, near Manila. Although the timing was coincidental, the events were closely related.

As the largest consumer group in the Philippines, with market capitalisation of more than US$4bn and an annual turnover which amounted to 4 per cent of gross domestic product in 1995, San Miguel towers above its domestic rivals.

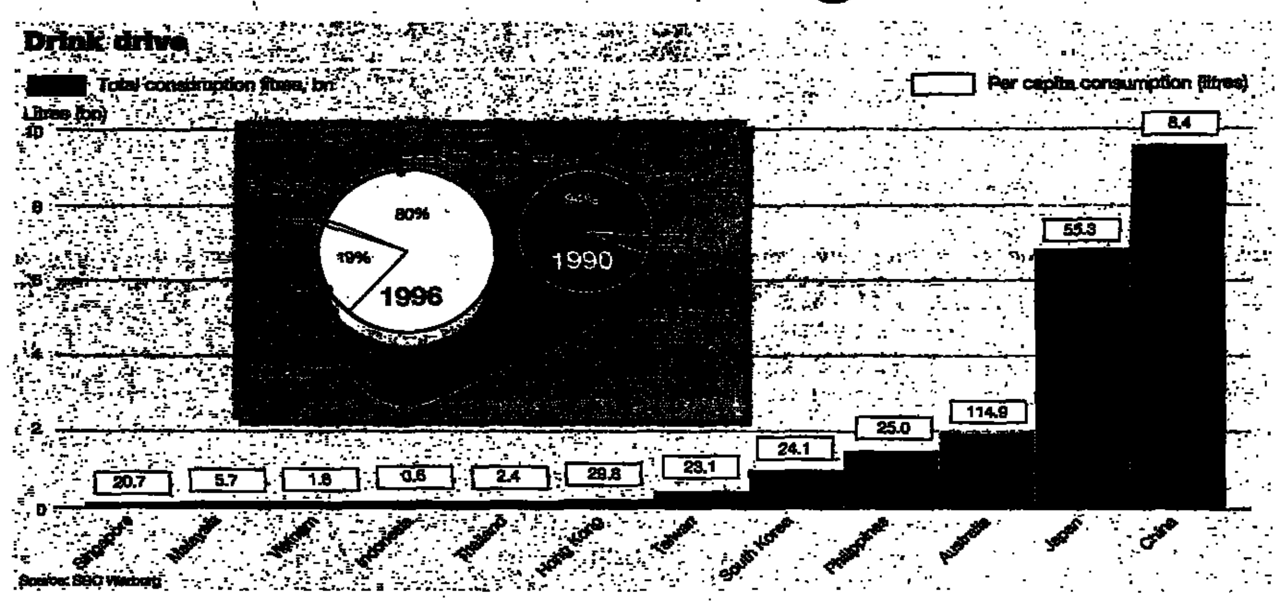
But its stranglehold on the beer, spirits and soft drinks markets is slipping rapidly. With its share of domestic beer consumption dropping from 94 per cent in 1990 to 80 per cent in 1996, San Miguel is aggressively trying to expand overseas.

"There's only one way for San Miguel's share of the Philippine beer market to go, and that is down," says Ms Gina Dipaling, analyst at Asia Equity Securities in Manila. "We expect its market share to continue dropping over the next few years at the same rate as it has fallen since 1990."

Apart from a 10 per cent drop in sales of overall beer volumes in the Philippines since 1990, San Miguel is also plagued by tougher competition from its only genuine domestic rival: Asia Brewery. Owned by Mr Lucio Tan, the Chinese-Filipino businessman, Asia Brewery has undercut San Miguel's market share through cheaper brands and creative accounting techniques.

Backed by San Miguel, which contributed just over 6 per cent of the nation's tax revenues last year, the government accuses Mr Tan of evading more than 25bn pesos (US$952.6m) in taxes by shifting production costs at his plants to "ghost" marketing arms. This, government lawyers allege, has enabled him to under-declare costs on the 60 per cent *ad valorem* tax charge. The government has so far failed to prosecute Mr Tan, who denies the allegations.

San Miguel, however, has a more vexing tax problem. Under the government's flagship tax reform bill this year, the *ad valorem* tax loophole was to have been closed with a specific excise tax on retail prices. This, according to Mr Andres Soriano, chairman of San Miguel, would have created a "level playing field" in the Philippine beer market.



Earlier this month, Congress enacted a "compromise" version which could raise San Miguel's already hefty tax charges. Asia Brewery, meanwhile, will continue to pay lower taxes.

San Miguel hopes the "compromise" clause will be amended before it reaches the statute books. Either way, the company's Philippine outlook appears bleak, with full-year profits expected to decline after a 19 per cent fall to 2.41bn pesos in the first half.

With its other divisions – poultry, coconut oil and processed meat – recovering slowly, San Miguel is looking abroad for salvation. Beer and beverages, including its Coca-Cola franchise and rum subsidiary, account for about 75 per cent of group sales.

The company, which recently opened two plants in China and will shortly open a third is looking to double its China production to 4.7m hectolitres by 1997, and become the largest foreign beer brand in the country by 1998. This will complement its 43 per cent share of the Hong Kong market, which was bolstered this week by the opening of the brewery in Yuen Long.

At the same time, San Miguel is doubling its capacity, to 1.2m litres, in Indonesia, where it has 49 per cent of PT Delta Jakarta, the country's largest beer group. By 1998, San Miguel says, the share of revenues derived from abroad will have doubled to 30 per cent.

"San Miguel's overseas drive will pay dividends in the medium term," says Mr Lucio Soso, chief researcher at All Asia Securities. "But in the short term, the financing costs are very high and growing all the time." Analysts estimate that San Miguel's US$1.9bn overseas drive will push its debt/equity ratio to 1.64 by 1997 and to 1.77 by 1998. In the first half of 1996, net financing charges rose 165 per cent to 1.3bn pesos.

With a price/earnings ratio of 33 in 1996 – against the Philippine Stock Exchange average of 21 – and an anaemic profits outlook, few believe San Miguel's shares will recover to their high of 110 pesos two years ago. Its B-shares (open to foreign buyers) closed at 86 pesos yesterday. "San Miguel's overseas drive will eventually make it a strong regional player," one analyst says. "For the time being, though, it is simply a troubled domestic player."

Edward Luce

NOTICE TO HOLDERS OF

Daiwa Industries, Ltd.

(the "Company")

U.S. $50,000,000

1 1/8 Percent

Guaranteed Bonds due 1997

Bearer Warrants to subscribe for shares of common stock of the Company (the "Shares") issued with US Dollars $50,000,000 1 1/8 percent, Guaranteed Bonds due 1997.

As a result of the issuance of 4,500,000 shares of common stock of the Company on September 10, 1996 at the consideration per share of Yen 1,036 determined on August 21, 1996, being less than the current market price of Yen 1,221.70 per share for the captioned warrants on that date, the Company has adjusted the Subscription Price of such warrants as follows:

1. Subscription Price before adjustment: Yen 1,151.90 per share

2. Subscription Price after adjustment: Yen 1,137.00 per share

3. Effective Date of above adjustment: September 10, 1996 (Japan Time)

DAIWA INDUSTRIES, LTD.

By: Bank of Tokyo-Mitsubishi Trust Company

Dated: September 26, 1996

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(Incorporated with limited liability in the Cayman Islands)

U.S. $50,000,000

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(the "Bonds")

convertible into shares of, and guaranteed by,

Hon Kwok Land Investment Company, Limited

(Incorporated with limited liability in Hong Kong)

Adjustment of Conversion Price of Bonds

On 18th June, 1996, the Directors of Hon Kwok Land Investment Company, Limited ("Hon Kwok") announced a proposed bonus issue of shares of HK $0.50 each of Hon Kwok on the basis of one share of Hon Kwok for every ten shares of Hon Kwok held on 19th September, 1996 (the "bonus issue"). The resolution approving the bonus issue was passed at the Annual General Meeting of Hon Kwok on 19th September, 1996. In accordance with the terms and conditions of the trust deed dated 15th December, 1993 constituting the Bonds (the "Trust Deed"), the conversion price at which new shares will be issued upon the exercise of conversion rights attaching to the Bonds has been adjusted from HK $3.50 per share to HK $3.10 per share (this figure has been rounded down to the nearest 10 Hong Kong cents as provided in the Trust Deed) immediately following the approval of the bonus issue referred above.

By Order of the Board
Hon Kwok Land Treasury Limited
Peter Chi-Chung Luk
Authorised Representative

Hon Kwok Land Investment Company, Limited
Herman Man-Hei Fung
Managing Director

Bankers Trust Company, London
26th September, 1996

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FT Surveys

مكتبا من الأصل

Third-quarter setback at Lehman

By Tracy Corrigan in New York

Lehman Brothers, the first of the US investment banks to publish third-quarter earnings, has reported a drop in net income from the second quarter.

Net income was $77m for the third quarter, up from $71m in the same quarter in 1995 but down from $106m in the second quarter.

More difficult market conditions reduced trading volumes and slowed underwriting activity, interrupting five consecutive quarters of higher revenues, the firm said.

"After a volatile July and a dead August, Lehman did not have the benefit of improving conditions in September," said Mr Michael Flanagan, an analyst at Financial Service Analytics.

Lehman's third quarter ended on August 31. Since most investment banks are not due to report until next month, their numbers will receive a fillip from this month's recovery. But they may still find it hard to match an extremely strong second quarter.

Lehman's return on equity for the quarter, typically below the industry norm according to analysts, was 9 per cent, down from 13.4 per cent in the second quarter. In the favourable market conditions of the past two years, the best performers in the industry have been achieving 20 per cent or more. Lehman's earnings per share fell to 60 cents in the third quarter, down from 89 cents in the second quarter.

Lehman's share price rose $⅝ to $23⅞ following the announcement of the results, which came in slightly ahead of analysts' expectations.

The stock has enjoyed a rally in recent weeks, because of renewed bid speculation, but is still cheap relative to the sector. It is trading at a discount to book value of about 16 per cent, while large-cap investment banks enjoy a premium of about 50 per cent.

In spite of the persistent rumours, most analysts are sceptical about the likelihood of a takeover. European banks are currently building their US operations by hiring teams from the US houses.

However, recent speculation has centred on the possibility of a bid from a US commercial bank looking to build lucrative investment banking business. Lehman is also believed to have looked at the possibility of merging with other securities houses. "Lehman is perfectly able to stand on its own, but the rumours won't go away," Mr Flanagan said.

Cominco warns of downturn in earnings

By Robert Gibbens in Montreal

Cominco, the Canadian mining and metals group, warned that third-quarter earnings were likely to be "appreciably lower" than the second quarter because of weaker London Metal Exchange prices for copper, nickel and zinc.

Mr David Thompson, president, also cited lower production and average grades at the Highland Valley copper mine in British Columbia, and scheduled shutdowns at the Sullivan zinc-lead mine and Trail Smelter, also in British Columbia.

Analysts expect Cominco's results to be published in the fourth week of October.

Earnings before special gains for the second quarter to June 30 were C$21m (US$15.4m), or 23 cents a share, against C$18m, or 21 cents, a year earlier. Sales were C$399m against C$353m.

First-half earnings were C$48m, or 54 cents, against C$44m, or 58 cents, on sales of C$828m against C$678m. In the third quarter of 1995, earnings were C$22m, or 25 cents, on sales of C$417m.

Cominco, 34 per cent held by Teck, is the world's biggest producer of zinc concentrates. It has base metals operations in the Americas and Australia.

It said recent drilling at the Red Dog zinc, lead and silver mine in Alaska had extended reserves at the Aqqaluk deposit.

● Euro-Nevada Mining, the Canadian mining company, is negotiating to invest C$50m–C$100m in the next two years in the royalties of six gold mine projects in the Philippines, Australia and Indonesia as part of its continued expansion.

Pan Am back with low-cost approach

The resurrected airline is aiming for a domestic niche, writes Richard Tomkins

Travellers could be forgiven a sense of déjà vu when the latest US start-up airline takes to the skies this morning. The name emblazoned on the side of the Airbus A300 taking off from New York at 8.00am will be Pan Am.

Nine months after announcing plans to resurrect one of the best known names in aviation history, Mr Martin Shugrue, the new company's chief executive, has at last won permission from the federal authorities to start flying again.

This morning's inaugural flight will leave New York's John F. Kennedy International Airport for Miami. Later today, another aircraft will inaugurate the airline's second route by leaving JFK for Los Angeles. In the weeks to follow, San Francisco and Chicago are due to join the network.

Pan Am chairman Martin Shugrue (left) at Wednesday's start of trading of Pan Am shares on the American Stock Exchange. The airline starts flying again today Reuter

The old Pan American World Airways was an aviation industry legend. Founded in 1927, it was the first airline to operate scheduled services across the Atlantic and the Pacific, and its route network spanned the globe.

The airline, however, met an ignominious end: it collapsed into bankruptcy in 1991 after years of losses. It was also held liable for the Lockerbie air disaster caused by the terrorist bombing of Pan Am flight 103 over Scotland in December 1988.

The new Pan Am differs in many ways from the old. It is tiny by comparison, starting with only three aircraft and two routes; it will serve only the US domestic market; and its low-cost structure places it among start-up carriers such as Southwest Airlines and ValuJet, rather than traditional carriers.

Yet there are similarities. Mr Shugrue once worked for the old Pan Am, as did many of the flight crew; the old livery, uniforms and trademarks have been revived; and in spite of the airline's low-cost structure, the new Pan Am will aim to match the old company's quality of in-flight meals and service.

It hopes to carve a niche in the intensely competitive US market by offering full service on long-haul domestic routes at low fares. The New York-Miami fare is $98 each way, and the New York-Los Angeles price $199. The fares are unrestricted, at least initially.

The strategy has raised eyebrows among some observers. For one thing, the outlook for start-up carriers has soured following the crash of a ValuJet aircraft in May; and the mid-air explosion of a Trans World Airlines aircraft in July brought back memories of Lockerbie.

Mr David Stamey, vice-president of Virginia-based Aviation Consulting, says: "They are going to have some difficulty because they have been counting on the Pan Am name to give them a high awareness profile going into the marketplace. Notwithstanding the fact that Pan Am is a proud old name, after these recent accidents you are just not sure that you are in control of whether people remember it in terms of good memories or bad memories."

Mr Philip Baggaley, airline analyst at Standard & Poor's, says: "They seem to be running counter to the usual formula for survival for a new entrant airline, which is to fly narrow-body aircraft on short, heavily-travelled routes and stay out of the way of the big boys.

"Rather, they are flying wide-body aircraft to Los Angeles and Miami, where they are flying right into the teeth of the largest carriers."

Mr Shugrue says the rate of bookings shows the Pan Am name is remembered in positive terms. "We have taken 7,000 bookings in two days, which is really quite extraordinary."

On strategy, Mr Shugrue says about 30 per cent of Pan Am's passenger traffic will be generated by partnerships it has formed with small and medium-sized international carriers flying into New York and Miami, such as Royal Jordanian, Air India, EgyptAir and Viasa.

This will allow Pan Am to set up a frequent flier programme, allowing US members to fly to exotic destinations on flights operated by Pan Am's partners. Members of the partners' programmes will be able to fly to US destinations served by Pan Am.

Mr Shugrue is ready for retaliation by the big carriers, but is not particularly worried. "The fact is that, in today's airline business, we are adopting more and more of the economic aspects of a commodity business. In any commodity business, whether manufacturing steel or growing corn, at the end of the day it's the low-cost producer that wins the game: and we are the low-cost producer in this market."

Loral pays $712m for AT&T's Skynet

By Christopher Parkes in Los Angeles

Loral Space and Communications is to pay $712m for AT&T's Skynet satellite services in a deal that sets the scene for sharpened competition between US contenders in the global communications market.

The agreement came only days after Hughes Electronics, the leading satellite maker and the dominant supplier of space-based services in the US, announced a $3bn pact to merge its operations with PanAmSat, the US satellite company.

Skynet, which serves US customers with its Telstar satellite network, was a "critical building block" and would provide a springboard for international expansion, according to Mr Bernard Schwartz, Loral chief executive.

Loral, which sold its mainstay weapons and defence systems operations to Lockheed Martin for $9bn earlier this year, draws annual revenues of $1.7bn from its new core businesses in satellite construction and services.

For AT&T, the long-distance carrier currently in the throes of restructuring, the sale marks the disposal of a non-core business.

Mr Schwartz said revenues and earnings were expected to increase "dramatically" as newly-launched satellites and vehicles under construction came into full service.

Cash flow from the Skynet acquisition should reach $95m next year on expected revenues of $145m, he claimed. In 1998, the newcomer would add some $30m to Loral's pre-tax profits.

Skynet runs two ground stations and has four satellites in service. It has long-term contracts to distribute TV programming for Walt Disney's ABC, News Corporation's Fox and Viacom. It also leases capacity to AlphaStar's direct-to-home TV service.

Loral's existing operations include operational control over the Globalstar satellite telephony network, in which it holds a 34 per cent stake.

The soon-to-merge Hughes and PanAmSat companies will control 14 satellites providing international television, telephony and data links in more than 100 countries, and plan to launch a further seven satellites.

Loral will fund more than two-thirds of its acquisition with new debt, leaving it with $400m in its cash reserves.

The deal is expected to close in six months, and no redundancies are expected, Mr Schwartz said.

AMERICAS NEWS DIGEST

3Com shares jump as profits surge

Shares of 3Com, the US computer networking equipment manufacturer, jumped sharply yesterday after the company reported higher than expected first-quarter earnings. 3Com was trading at $63 in mid-session yesterday, up 11 per cent from Tuesday's close of $56⅝. Earnings for the first fiscal quarter, ended August 31, were $93.1m, or 52 cents a share, up 62 per cent from $57.4m, or 33 cents, in the same period last year. The results beat Wall Street's forecasts of about 47 cents a shares. Sales for the quarter were up 42 per cent at $707m, against $497.3m in the year earlier period, reflecting strong demand for equipment used to link computers to office networks and the Internet. According to market researchers at Dell 'Oro Group, 3Com became the world leader in sales of networking hubs during the first half of 1996. 3Com is also the leading supplier of equipment for the Ethernet office network. *Louise Kehoe, San Francisco*

SCI to review Loewen options

The board of Houston-based Service Corporation International will meet next Tuesday to consider ways of pursuing Loewen Corporation, SCI's arch-rival in the North American funeral services business. Loewen earlier this week dismissed SCI's unsolicited $2.5bn takeover proposal. "SCI clearly intends to eliminate its most formidable competitor ... diminishing the opportunities for independent funeral homes," Mr Ray Loewen, founder and chief executive, said. Loewen described SCI's all-share offer, valued at $43 a share, as inadequate.

SCI, which has a reputation as an aggressive, determined predator, said yesterday its board would "review all options available to enable us to consummate this transaction". Analysts are divided over SCI's chances of success. While Loewen has a limited arsenal of defensive weapons, SCI's options are restricted by, among other things, its preference for a "pooling of interests", which excludes a cash offer. Loewen's shares gained 62 cents to $41.62 in early trading on the Nasdaq exchange yesterday. *Bernard Simon, Toronto*

Bayer targets Latin America

Bayer, the German chemicals and pharmaceuticals company, said it would invest a further DM190m ($126m) in Mexico and nearly DM1bn in Central and South America by 2000. Central and South America play "an important part in the group's plans for the future", since the region has potential for sustained and vigorous growth, said board member Mr Walter Wenninger, in a speech to mark the 75th anniversary of the group's presence in Mexico. Bayer already generates sales of 2.44bn pesos ($324m) in Mexico and employs a workforce of 2,500. *AFX News, Leverkusen, Germany*

Schering-Plough buy-back

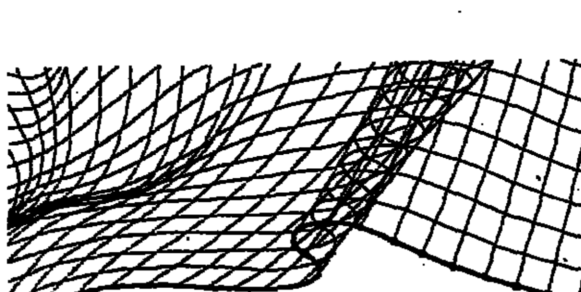
Schering-Plough, the US drugs company, is to repurchase up to $500m in common stock, depending on market conditions. It said the buy-back decision stems from its strong liquidity and expectations of solid earnings growth. The company has completed eight share repurchase programmes since 1983, buying back the equivalent of more than 182m shares at a cost of $3.9bn. The company said at the current price it would have a market value of about $10.8bn. As of June 30, it had 369,678,128 shares outstanding. Merrill Lynch will be sole broker on the transactions. *Reuter, New Jersey*

Corimon sells Argentine unit

Corimon, the Venezuelan paints and packaging company, has completed the sale of its Argentine subsidiary Colorin to Consorcio Bisa for $3.5m. The sale is part of a restructuring process in which Corimon has shed most of its international assets. *Reuter, Caracas*

Computervision disposal

Computervision, the US software and services company, has agreed to sell its Open Service Solutions business to an investment group headed by J.F. Lehman & Co for $125m. On closing the transaction, the business will be conducted under the name of CV Services International. The sale is for $100m in cash, $25m in preferred stock in CV Services International, and warrants to buy common shares representing 19 per cent of CV Services International. *Reuter, Bedford, Mass*



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June 1996

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Concentric signs former Rover man

By Tim Burt

Concentric, the small instruments and components maker, yesterday pulled off a coup by persuading Mr John Towers, former head of Rover Group, to become its new chief executive.

Shares in the Midlands-based company jumped more than 16 per cent to 197p after it announced that Mr Towers would take over next week.

The 48-year-old engineer, who resigned as Rover chief executive four months ago, rejected several approaches in favour of Concentric, which he described as an exciting growth opportunity.

"I wanted to run a quoted company, but something a bit smaller," he said.

At Rover – acquired in 1994 by Germany's BMW for £800m ($1.4bn) – Mr Towers was in charge of 40,000 employees. Concentric, with a market capitalisation of £107.4m, employs less than 3,000 people. The company – a Rover supplier – reported profits up from £10.2m to £11.3m last year. BMW, by comparison, reported annual losses of DM355m (£154.3m) at Rover.

Although Mr Towers, who received a severance package worth about £400,000, refused to comment on his decision to leave Rover, he said he had wanted to eliminate the "hierarchical trappings" that occur in such a large company.

"I simply wanted to run a smaller business that was looking for growth in terms of expanding its core activities organically and possibly through acquisition." He yesterday underlined his commitment to Concentric by acquiring 10,000 shares at 180p. By the market close, he was showing a paper profit of £1,750 on that investment.

Mr Towers will succeed Mr Robert Bruce, who was only promoted to chief executive a year ago. American-born Mr Bruce, thought to have been paid between £125,000 and £130,000 last year, has decided to return to the US for family reasons. Concentric said he would remain director of its overseas operations. It refused, however, to release any details of its new chief executive's pay package.

Barratt chairman attacks rivals

By Andrew Taylor, Construction Correspondent

Sir Lawrie Barratt, chairman of the UK's second-largest housebuilder, yesterday criticised rivals, including Bryant Group and Persimmon, for overpaying for recent acquisitions.

His comments drew a sharp response from Mr Duncan Davidson, chairman of Persimmon, which this year launched a £91m rights issue to finance the £169m acquisition of Ideal Homes from Trafalgar House.

Sir Lawrie said yesterday Barratt had estimated Ideal Homes' worth at about £150m, and that Persimmon was risking "committing financial suicide" by paying too much.

His remarks came as Barratt announced a 10.6 per cent rise in pre-tax profits, to £52.1m, in the 12 months to the end of June. He said: "Barratt was the only national builder to increase volume completions, pre-tax profits and earnings per share over the period."

The company wants to increase UK house sales from 7,000 to 11,000 by the millennium, but said it had bought land for expansion rather than pay over the odds for companies which "were only selling because there was a problem".

Persimmon's chairman replied: "Sir Lawrie has done a wonderful job for the housing industry. But he built his business on the back of a great string of acquisitions in the 1970s and early 1980s. Barratt also bought businesses in California which are still making losses.

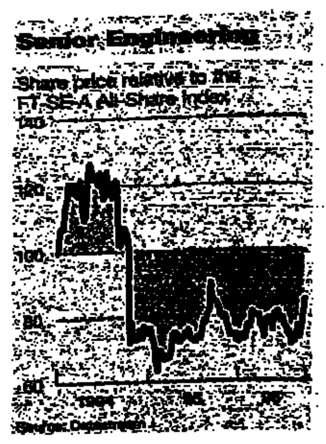
"It wrote off more than £100m in the early 1990s, mostly as a result of bad land purchases. I would rather pay good money for a sound business like Ideal Homes.

"For the £19m we paid over book value we received £55m of tax losses and some very high-quality strategic land, some of which has already won planning permission and is worth substantially more than we paid for it."

Mr Michael Chapman, finance director of Birmingham-based housebuilder Bryant Group, also responded to Sir Lawrie's criticism that Barratt had offered £10m less than the £62m paid last week by Bryant for Admiral Homes.

LEX COMMENT

TI/Senior



How do you winkle a good business out of a rather unpalatable group? If management refuses to sell you the bit you want, there appear to be only two options: bid for the whole lot or walk away. This is the conundrum facing TI Group over the much smaller Senior Engineering. Senior's main Flexonics tubes division would undoubtedly fit neatly into TI's portfolio. But Senior also owns an air conditioning business which is not of interest to TI; and it has a thermal engineering operation with a remarkable ability to come up with lossmaking contracts. TI is therefore unlikely to bid – which makes rather a nonsense of the 11 per cent jump in Senior's shares this week.

But there is another way around this problem. TI could tell Senior's shareholders, either privately or publicly, how much it would be prepared to pay for Flexonics. According to most analysts, Flexonics alone is worth £330m. The air conditioning business could fetch £100m, so even subtracting £40m of debt and giving thermal engineering away for free would value Senior at £390m, a healthy premium over its current market capitalisation of £350m. Armed with this indicative offer, Senior's shareholders could then press the company's management to sell out unless they can credibly produce more value. After all, Senior has promised to sell its thermal business for almost a year now. If it hangs on to it much longer, investors might conclude it is a deliberate poison pill.

Yorkshire Electricity considers buy-back

By Simon Holberton

Yorkshire Electricity is contemplating a £120m ($187m) share buy-back or special dividend, Mr Tony Coleman, finance director, said yesterday.

Mr Coleman said Yorkshire planned to increase its gearing from about 45 per cent to 100 per cent in the current year. This would release about £120m in cash. "We follow a return of value line," he said.

The move is likely to be controversial with the Labour party which has pledged to levy a windfall profits tax on utilities if returned to power.

Mr Coleman said the company had have a number of outstanding options for the cash, and it was considering a number of investments in generation. Yorkshire already owns 250MW of generating capacity.

"If one or two of the large [generation projects] come through them it would put a different complexion on the use of the cash," he said.

However, utilities analysts who saw the company last week believe that Yorkshire will opt to return cash to shareholders. They expect an announcement near the time of its interim results in mid-December.

Analysts believe the company will struggle to keep its gearing at 100 per cent and that a further "release of value" through a buy-back or special dividend is likely next year.

Yorkshire has a property development portfolio and a substantial shareholding in Ionica, a mobile telecommunications company, which could provide funds for further distributions over and above the promised 7 per cent a year dividend growth.

Revamp blamed for H&C fall

By Ross Tieman

Disruption caused by rationalisation and modernisation at its chain of Harcros builders' merchants contributed to a decline in first-half profits at Harrisons & Crosfield, a conglomerate.

The closure or sale of smaller sites and the introduction of a new computer system caused operating profits at the 204 Harcros stores to fall from £9.6m to £5.1m ($7.95m).

That coincided with disruption in the US at the company's Moores chain of timber merchants, based in Virginia, which switched emphasis from retail to contract sales. Profits from distribution of timber and construction materials declined from £12.2m to just £2.7m.

Mr Bill Turcan, chief executive, said: "The steps we have taken to restructure this business are now taking effect and the current results are on an improving trend."

Overall, pre-tax profits for the six months to June 30 fell £2.4m to £64m, on sales down 1.3 per cent at £1bn.

Brendan Corr

Bill Turcan: seeing the benefits of restructuring the distribution activities

The dividend is maintained at 3.6p, although earnings per share slipped to 5.5p (5.7p).

The chemical and industrial side reported a rise in profit of just £700,000 to £29.3m. Food and agriculture performed well, lifting profits £4.3m to £18.8m.

The company's maltings performed well in a buoyant market, shipping malt for brewing to Asian and South American producers. But the animal feedstuffs manufacturers were hit by the British BSE scare, as dairy farmers cut their purchases of additional feed.

The sale of Harrisons' 54 per cent stake in New Britain Palm Oil to the Papua New Guinea government is expected to be completed on October 3, taking Harrisons out of the plantation business, which contributed £17.9m (£15.7m) to profits.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alexon	6 mths to July 27	57.2	(47.8)	3.03	(0.141)	4.16.	(0.86L)	nil	-	nil	-	nil
Barratt Devs	Yr to June 30	634.3	(579)	52.1	(47.1)	17.8†	(15.2)	5.5	Nov 22	5	8.25	7.5
BBB Design §	Yr to Apr 30	1.04	(1.21)	0.233♥	(0.404L♥)	2.81	(4.88L)	-	-	-	-	-
Brake Bros	6 mths to June 30	296.1	(214.1)	12.4	(11.6)	15.8	(14.7)	2.9	Dec 31	2.7	-	9.5
Carisbrooke Φ	6 mths to June 30	4.62	(4.67)	0.365	(0.395)	4.2†	(5)	1	Dec 3	-	-	-
Dencora	6 mths to June 30	10.6	(18.7)	1.17	(1.82)	3.2	(6.4)	-	-	-	-	4.1
Global	6 mths to June 30	73.5	(54)	1.2	(0.842)	0.54†	(0.42)	0.21	Nov 29	0.2	-	0.6
Harrisons Crosfield	6 mths to June 30	1,018	(1,032)	64♠	(66.4♠)	5.5†	(5.7)	3.6	Dec 9	3.6	-	9
Helical Bar	6 mths to July 31	45.7	(28)	4.36	(4.25)	7.9	(13.7)	3.15	Nov 14	2.9	-	7.3
Hydro-Dynamic Φ	11 mths to May 31	5.4☆	(5.39)	1.03	(1.06)	9.8‡	(9.2‡)	-	-	-	-	-
Ibstock	6 mths to June 30	115.1	(122.2)	2.41	(14♥)	0.87	(3.78)	0.75	Dec 2	0.75	-	2
Mucklow (A&J)	Yr to June 30	21.9	(21.5)	10.5	(10.2)	8.88	(7.54)	3.4315	Jan 2	3.3316	6.6689	6.4747
MultiMedia Φ	6 mths to June 30	1.49	(1.09)	0.024	(0.003)	0.08†	(0.01)	-	-	-	-	-
Norish ♣	6 mths to June 30	4.95	(4.4)	0.688	(0.566L)	6.18	(6.34L)	nil	-	nil	-	nil
PGA Euro Tour	6 mths to June 30	1.59	(0.558)	1.02♥	(0.453)	0.18†	(0.36)	-	-	-	-	-
Prime People	6 mths to June 30	1.75	(0.296)	0.033	(0.078L)	0.09	(0.2L†)	-	-	-	-	-
Radamec	6 mths to June 30	7.97	(5.36)	0.711	(0.566)	2.5	(2.1)	1	Dec 6	0.8	-	2.4
Ryan Hotels ♣	6 mths to July 25	13.9	(13.2)	1.61	(1.23)	2.18	(1.68)	0.625	Nov 22	0.5	-	1.5
Thorpe (FW)	Yr to June 30	21.3	(20.9)	2.2	(3.1)	11.9	(16.4)	2.85	Nov 13	2.75	4.18	4
Torex	6 mths to June 30	4.54	(2.82)	0.679	(0.117)	2.2†	(0.68)	0.4	Dec 13	0.3	-	1.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Henderson Euro	Yr to July 31	159.99	(129.65)	0.417	(0.746)	2.37	(4.24)	1	Nov 1	1.85	2	3.35
Hill Samuel UK	4 mths to July 31	99.8	(96.1⁑)	0.222	(-)	0.78	(-)	-	-	-	-	-
Murray Split Cap	Yr to Aug 31	233.7	(213.5)	0.988	(0.869)	12.4	(10.9)	3.15	Dec 20	2.9	11.4	10.85
Second Market ★	6 mths to June 30	651.1	(547.1)	0.433	(0.51)	4.05	(4.78)	-	-	-	-	5.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. §USM stock. ΦAim stock. ☆Comparatives for 12 months. ‡Pro forma. ♣Irish currency. ⁑Value at March 28 launch. ★Comparatives restated.

PSA PEUGEOT CITROËN

1996 INTERIM CONSOLIDATED RESULTS

- **3% increase in net sales**
- **Net income: FRF 602 million**

The Western European passenger car market expanded by only 4.7% in the first six months of 1996, while registrations of light commercial vehicles grew by a mere 2.8%. This lack of momentum heightened competitive pressure, particularly in France. At the same time, exchange rate movements over the period had little impact on the competitive advantage created for certain manufacturers by the past devaluation of their domestic currencies, such as the lira.

PSA Peugeot Citroën continued to focus on maintaining the most effective balance between unit margins and volumes. This commitment was supported by sustained renewal of the passenger car range, with the introductions of the Peugeot 406 in October 1995 and of the Citroën Saxo and Peugeot 106 in February 1996. The commercial vehicle range was also expanded, with the launch of the Peugeot Expert and Citroën Jumpy, together with the more compact Citroën Berlingo and Peugeot Partner.

Despite greater competition, the success of these models and the ongoing drive to improve productivity, both within the Group and among suppliers, attenuated the decline in operating margin, which remained positive. The Group not only reported an interim profit, it also generated sufficient working capital from operations to cover capital expenditure for the period and significantly reduce debt.

Financial results

(FF millions)	June 30, 1996	June 30, 1995	Dec. 31, 1995
Net sales	89,037	86,431	164,248
Operating income	1,336	2,776	3,751
Income before income taxes	834	1,805	2,426
Net income for the period	602	1,216	1,703

Financial structure

(FF millions)	June 30, 1996	June 30, 1995	Dec. 31, 1995
Working capital provided from operations	6,660	8,080	12,776
Gross capital expenditure	5,294	5,425	11,908
Stockholders' equity	55,063	54,284	54,630
Net financial debt	5,649	5,589	9,823

Net sales up 3.0%

Net sales rose by 3% in the first half, as the 2.7% impact of a sharply improved product mix offset the slight 1% increase in the number of vehicles invoiced and the 0.3% negative currency effect. Product-mix improvements were led by the success of the new Peugeot and Citroën commercial vehicles and of the Peugeot 406 which, with the Citroën Xantia, increased the Group's share of the upper mid-range segment.

Operating income amounted to FF 1,336 million

Unfavorable exchange rates, particularly for the British pound, reduced interim operating income by nearly FF 300 million. Productivity gains both within the Group and among suppliers partially offset the cost of significantly enhancing the range of standard passenger car equipment and the higher marketing outlays required in a more competitive market.

Income before income taxes and minority interest totaled FF 834 million

Equity in pretax earnings of affiliated companies improved over the period, on generally good results from the finance companies and the ramp-up to full production at the Sevel Nord and Sevel Sud plants. Interest expense increased temporally due to inventory build-up early in the year, in the wake of the public transport strikes in December 1995.

Net income for the period stood at FF 602 million, after income tax of FF 130 million and minority interest of FF 102 million.

Working capital provided from operations represented 126% of gross capital spending

Working capital provided from operations totaled FF 6,660 million in the first half, compared with gross capital expenditure of FF 5,294 million. Capital outlays declined by 2.4% during the period, reflecting the growing benefits from the commitment to rightsizing procurement for development programs.

Net financial debt was reduced to FF 5,649 million from FRF 9,823 million at year-end 1995. In addition to the free cash flow available after financing capital improvements for the period, the working capital requirement declined from the year-end 1995 peak caused by the disruption of public transport in France.

Consolidated stockholders' equity stood at FF 55,063 million, or FF 1,099 per share, at June 30, giving a debt-to-equity ratio of 10% versus 18% at year-end 1995.

OUTLOOK FOR THE FULL YEAR

By the end of August, the European passenger car market had grown by 6% compared with the first eight months of 1995. The Group's market share rose to 12.7% in July and August, lifting its share for the eight-month period to 11.9%. This was close to the rate achieved in the same period of 1995.

Development of the product range is being actively pursued, following the launches carried out in the first half. Citroën has developed a family car based on the Berlingo and the upper-mid range will be expanded at the end of the year with the introduction of a new V6 engine for the Xantia and the 406, a station-wagon version of the 406 and the very attractive 406 coupé unveiled at the Paris Auto Show.

The long-standing policy of lowering the cost base continues to focus on raising productivity at the plants and the head office, working in active partnership with suppliers, and carefully managing capital expenditure for the development of new products and the modernization of manufacturing facilities.

French interest rates, provided they remain at their present level, and the continued narrowing of the still excessive imbalances between European currencies should have a positive impact on second-half financial results.

These and other strengths will enable PSA Peugeot Citroën to maintain its developments even in an increasingly competitive marketplace.

PSA PEUGEOT CITROËN

NET SALES
89.0
FRF billion

OPERATING MARGIN
1.3
FRF billion

CASH FLOW ON CAPITAL EXPENDITURE
126%

DEBT TO EQUITY RATIO
10%

Internet: http://www.psa-peugeot-citroen.com

AEA float is priced at 280p

By Leyla Boulton, Environment Correspondent

The government yesterday announced a price of 280p a share for today's flotation of AEA Technology, valuing the science and engineering company at £224m ($349m).

As widely expected, the price was set at the top end of an indicative range between 250p and 280p, after strong demand for the shares prompted the government on Monday to revise its initial range of 240p to 270p.

Schroders, which advised the government on the flotation, said an intermediaries offer had been subscribed seven times. This had led to an increase in the proportion of shares allocated to intermediaries from 10 per cent to 12.5 per cent of the 80m on offer.

NEWS DIGEST

Pru to take £50m charge

Prudential Corporation, the UK's largest life insurer, intends to take on banks and building societies when it opens for business as a bank next Tuesday.

The group, which officially launched its branchless mortgage lending and deposit-taking arm yesterday, is following an emerging trend in the life insurance sector; Scottish Widows and Friends Provident, the mutual life insurers, have already launched banking services.

The Pru will incur an exceptional charge of £50m ($78m) this year to cover set-up costs, which have totalled £70m since it announced the move last October.

It will offer a range of mortgage and savings products in an attempt to expand its customer base and capitalise on existing clients. About 250,000 life insurance policyholders receive £1bn in maturity money each year, but group research has shown about 70 per cent of that money remains in a building society account for a year after it matures.

Mr Jim Sutcliffe, chief executive of Prudential UK, said: "We are confident we will be able to capture a significant portion of the money we currently pay out." He added that the group also arranged £700m of mortgages with competitors, and hoped to take a large proportion of that business in-house within three years. *Motoko Rich*

Australian buy for Daily Mail

DMG Radio Australia, an arm of Daily Mail and General Trust, has made its long-mooted entry into the Australian radio market. The UK media company is paying A$46m ($36.5m) cash for Broadcast Media, one of Australia's largest regional radio operators with 12 stations spread across three states.

DMG's Australian offshoot was formed earlier this year with a public declaration that it was chasing acquisitions, Mr Paul Thompson, chief executive, said.

DMG Radio's development in Australia would be driven from a platform of acquisition of existing stations, and through new licences, the creation of new commercial radio stations. The company would soon be expanding its portfolio with four new FM stations.

He believed there was substantial potential for the development of national advertising revenue in regional markets. *Bruce Jacques in Sydney*

BT and News Intl plan link-up

British Telecommunications and News International plan to launch an Internet service for the home based on material from News International's leading titles, including The Times, The Sunday Times, The Sun and the News of the World.

A joint venture company, Springboard, has been established to create and deliver the service. Neither company would comment on the investment involved.

BT already operates both a business and residential Internet service, but Springboard represents one of its first ventures into a partnership with a content provider.

The intention is that Springboard will work with third parties to provide local and national news, weather, sport, events, listings and ticketing as well as games, retailing and a definitive reference library. *Alan Cane*

BTR unit in Chinese venture

BTR's automotive systems group has acquired a majority share in Wuxi CSH, a vibration control joint venture in China, for £8m cash.

Wuxi CSH is the leading producer of anti-vibration components in China and supplies Volkswagen/Audi.

RESULTS FOR 1995/96

✱ Pre-Tax Profit	£10.51m	(£10.21m)
✱ Increased Dividend	6.6689p	(6.4747p net)
✱ Property Portfolio valued at	£223.1m	(£209.5m)
✱ Net Asset Value per Share	156p	(155p)

MUCKLOW

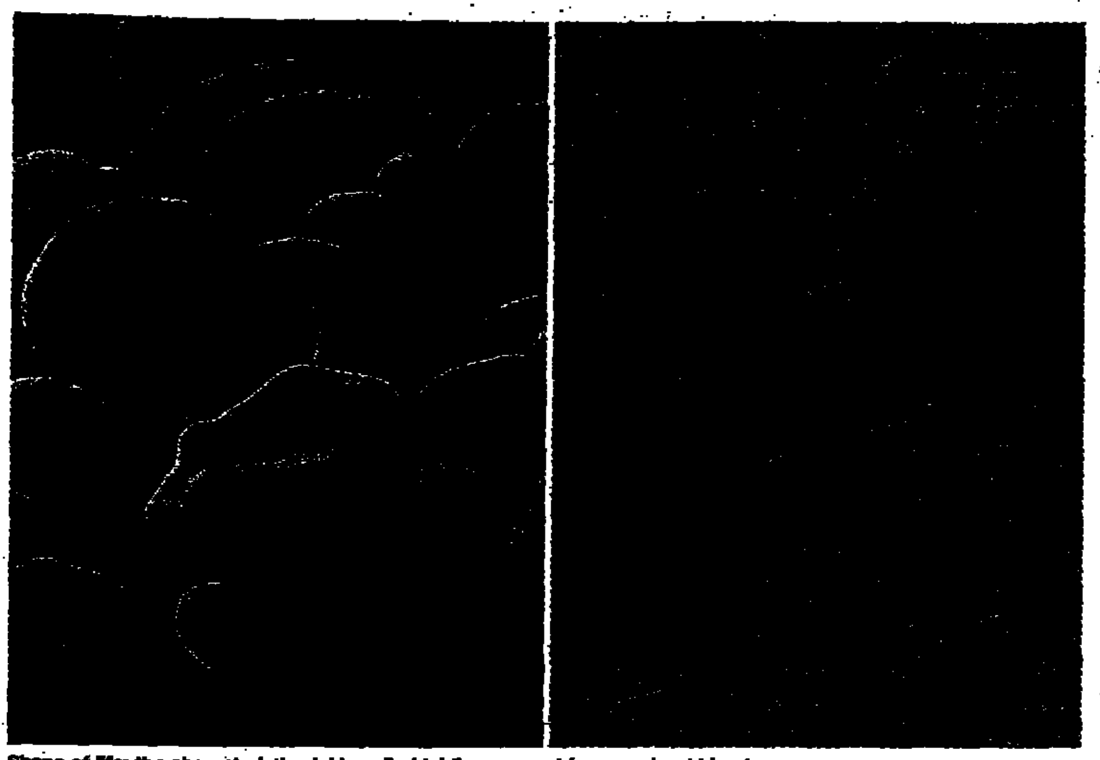
A&J MUCKLOW GROUP plc (A major property investment company based in the Midlands)

The Annual Report and Accounts for the year ended 30th June 1996 will be circulated to Shareholders on 14th October 1996

مكتبة من الأصل

هكذا من الاصل

TECHNOLOGY



Shape of life: the characteristic sickle cells (right) compared to normal red blood Science Photo Library

Genetic mutations specific to racial groups are being targeted by researchers, says Daniel Green

Diseases put on the map

The idea of diseases specific to a race or a nationality sounds like political dynamite. The explosive news is that medicine already recognises that groups such as north European Jews, black Africans and those whose ancestors lived around the Mediterranean are more likely to suffer from genetic diseases ranging from anaemia to cancer.

Politically correct medicine may yet have the last laugh. As the details of genetic code are unravelled, scientists are discovering that many genetic diseases have geographic variations.

Cystic fibrosis, which principally affects the lungs, for example, is caused by a mutation on a single gene. But the latest research shows that the mutation in German and Danish CF sufferers is different from that in most British and Italian CF patients.

Such observations make the patterns of genetic disease potentially important for everyone. Some of the gene treatments in research depend on identifying the genetic mutation precisely. A way to fix a the genes in an Italian CF patient might not work in Denmark.

Perhaps the best known of such diseases is sickle cell anaemia. It is a disorder of red blood cells in which the misshapen cells get stuck in small blood vessels depriving tissues of oxygen. It occurs in one in 500 blacks and almost no one else.

A similar condition is thalassemia, a red-blood cell disease that affects people of Mediterranean and south-east Asian descent as well as blacks.

That these two disease exist at all is a tribute to the dangers of malaria. The damaged cells make the sufferer resistant to malaria. So carriers from malaria-prone regions, which included the Mediterranean until this century, have an advantage over their "healthier" compatriots.

According to Mark Layton, senior lecturer in haematology at Kings College Hospital in London, the effect is so powerful that there are several other minor enzyme deficiencies which have also survived because they offer some protection against malaria.

Although there is no treatment for the genetic causes of thalassemia and sickle cell anaemia, children can be immunised and given antibiotics to prevent meningitis and the kinds of pneumonia to which sufferers are prone. The children are identified through genetic screening of high risk groups, now standard practice in many countries.

Any cure would probably rely on gene therapy – replacing faulty genes with healthy ones. Blood conditions like sickle cell anaemia are a favourite target because the damaged cells are continually replenished by the body. In principle, if genes are changed in the source of the cells – the stem cells – a steady production of healthy blood cells might be possible.

Gene therapy is still in research and has so far met with very modest success. That is why the research published in the US journal Science earlier this summer caused such a stir.

Scientists at the Thomas Jefferson University in Philadelphia in the US have been able to change up to 20 per cent of the genes in red blood cells that had been affected by sickle cell disease.

What made the event exciting was the scientists' method of carefully crafting the new genetic material to correct the fault. It seemed to be able to change the most basic building block of the gene, a single base pair, with great precision.

This method would have advantages over most other attempts at gene therapy. They involve using genetically engineered viruses to carry the genetic material, with attendant risks of disease, or simply blasting the genetic material into cells (jokingly called biolistics by some scientists) in the hope that it will do something useful.

Eric Kmiec, who heads the team at Jefferson, stresses that his method can only work if the genetics of the condition are understood in the greatest possible detail. "It's not so much the gene but the sequence [of amino acid molecules in the gene]," he says. The method is applicable to other diseases but "the type of target to look at would be one in which the mutation had been well defined – it has to be known almost exactly for this kind of treatment."

Candidate diseases include cystic fibrosis and Gaucher's disease, an enzyme deficiency, says Kmiec. A company called Kimeragen has been set up in Pennsylvania to exploit the technology.

Some diseases may not be amenable to this approach. One likely to prove difficult is a gene that predisposes women to breast cancer and possibly ovarian cancer.

The BRCA1 gene is found in about one in 900 people. But it is found in one in 50 with breast cancer and one in 12 under 30 with breast cancer. In Ashkenazi (north European) Jews one in five women under 40 with breast cancer have the gene.

That means that Ashkenazi women with the BRCA1 gene have about an 80 per cent chance of developing breast cancer over their lifetimes, says Shirley Hodgson, senior lecturer in clinical genetics at Guy's Hospital in London. "That compares with 8 per cent to 10 per cent for other women in Europe or north America."

The problem for any attempt to treat the genes through carefully targeted repacement of the faulty components is that more than 100 different mutations have been found scattered across the BRCA1 gene.

Since a gene's job is to trigger the production of a protein, different BRCA1 mutations generate different proteins. It is not yet clear whether all the faulty proteins work in the same way to encourage the cancer.

It is possible to test women for the presence of the gene. But this raises a problem: without a clear preventative treatment for breast cancer, how would identifying the gene in an otherwise healthy woman help? Besides, not everyone with the gene gets breast cancer and not everyone with breast cancer has the gene.

Regular diagnostic screening could spot a tumour early. But "just in case" breast removal does not remove every trace of breast material, so a cancer risk remains. Breast cancer drugs such as tamoxifen have side-effects that may outweigh their benefits.

In practice, a negative test would not rule out either the gene defect or the possibility of contracting breast cancer, while a positive test could affect the patient's insurance policies.

It may be more useful to test women already diagnosed with breast cancer, especially if they are Ashkenazis, because of the high chance of contracting ovarian cancer too if they have the gene.

The lessons learned in all these conditions are likely to prove of ever greater importance as science uncovers new ethnic and geographic concentrations of disease. One of the latest discoveries is that a genetic mutation that confers resistance to HIV, the virus that causes Aids, is much more prevalent in whites than blacks.

Such findings have not been tainted with the politics of race and religion. The guiding principle is that if medicine can use them to develop better diagnoses and treatments then scientists will keep looking.

The series on human genes continues next month with a look at arthritis

Worth Watching · Vanessa Houlder

Breakthrough for tough, flexible films

Scientists at the University of Liverpool have found a method of making thin films of super-hard, super-elastic carbon that could potentially be useful as coatings for such things computer memory disks and surgical implants, according to today's Nature magazine.

They sprayed nanometre-sized particles of carbon called "nanotubes" and "onions" on to a substrate at high speed.

The particles were disrupted on impact, causing them to link up in a way that made the films hard and elastic.

University of Liverpool: UK, tel (0)151 7944525; fax (0)151 7944540.

Wool process with green benefits

A wool processing system has been developed in Japan that reduces shrinkage during washing, deepens dye colours and colour-fastness and counteracts bacterial infection.

The technique involves weakening and destroying the structure of the wool fibre using mechanical force, and immersing it in oxidising agents. The chemicals employed in the process are less damaging to the environment than those conventionally used in processing.

The wool's anti-bacterial properties of wool processed in this way could make it particularly suitable for wound dressings, medical face-masks and filters.

Bussey-Hewitt Processing, which is part of the British Wool Marketing Board, is the UK representative of the system, which is called Enviro-Wool, which is handled in Japan by Nagawa and Daitobo.

Bussey-Hewitt Wools: UK, tel (0)1274 890555; fax (0)1274 734454.

When equipment goes for a walk

Large organisations often incur heavy costs as a result of equipment being stolen or mislaid. Newmark Technology, a UK-based security company, has designed a radio-based tagging system to help companies keep track of computers and other valuable equipment. It automatically tracks the tagged assets at distances of up to 100m.

At the same time, the system monitors and controls access to the controlled area. It can monitor an individual's authority to remove property, allowing staff to be alerted if the attempt is unauthorised.

Newmark Technology: UK, tel (0)1737 788800; fax (0)1737 779535.

Optical signals speed information

For the information superhighway to become a reality, ever-larger amounts of digital information have to be transmitted quickly and reliably over long distances.

Philips Optoelectronics Centre and Eindhoven University have claimed a breakthrough in the long-distance transmission of optical signals, by sending a signal with a capacity of 10 Gbit/s (10 thousand million bits per second) over a distance of 420 km. The previous record, stood at 2.5 Gbit/s over a distance of 500 km.

The Dutch experiment used standard optical fibre cables and optical semiconductor amplifiers.

Philips: The Netherlands, tel 402742204; fax 402744947.

The personal touch for e-mail

Standard letters personalised with the recipient's name and address have become ubiquitous.

NetMailer now does the same thing with e-mail, personalising mail messages by combining a template with information from a database. Alpha Software's program costs £69.95.

Alpha Software UK: tel (0)1752 897100; fax (0)1752 894833.

Cal-it

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Application has been made to the London Stock Exchange for the whole of the issued ordinary share capital of AEA Technology plc to be admitted to the Official List of the London Stock Exchange. It is expected that admission to the Official List will become effective and that dealings in the ordinary shares will commence on Thursday, 26 September 1996.

AEA Technology plc

(Incorporated and registered in England and Wales under the Companies Act 1985 No. 3095862)

Placing and Intermediaries Offer
by the Secretary of State for Trade and Industry
sponsored by J. Henry Schroder & Co. Limited
of 80,000,000 ordinary shares of 10p each
at a price of 280p per share

Share capital following the Offer

Authorised Number	Authorised Amount		Issued and fully paid Number	Issued and fully paid Amount
120,000,000	£12,000,000	ordinary shares of 10p each	80,000,000	£8,000,000
1	£1	special rights redeemable preference share of £1	1	£1

The Intermediaries Offer closed at 12 noon on Tuesday, 24 September 1996. The Intermediaries Offer comprises 12.5 per cent. of the ordinary shares.

A supplementary prospectus relating to AEA Technology plc and the Placing and Intermediaries Offer has been published and copies may be obtained during normal business hours on any weekday (Saturdays excepted) until Wednesday, 9 October 1996 from:

J. Henry Schroder & Co. Limited
120 Cheapside
London EC2V 6DS

Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN

AEA Technology plc
329 Harwell
Didcot
Oxfordshire OX11 ORA

Copies of the supplementary prospectus will also be available (for collection only during normal business hours) from the Company Announcements Office, London Stock Exchange, Capel Court entrance, off Bartholomew Lane, London EC2N 1HP.

The ordinary shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) or under the applicable securities laws of Canada, Japan or Australia and may not be offered or sold in any jurisdiction in which an offer or solicitation would be unlawful or to any national, resident or citizen of such jurisdictions and neither the prospectus nor this advertisement is for distribution in or to the United States, Canada, Japan or Australia.

The prospectus has not been prepared in the context of a public offer of securities in France within the meaning of Regulation No. 92.02 of the Commission des opérations de bourse ("COB"), and has therefore not been and will not be submitted to the COB for approval. Applicants for ordinary shares will be required to invest for their own account and not to re-transfer the shares in France, other than in compliance with applicable laws and regulations.

26 September 1996

FRNs see strong demand

INTERNATIONAL BONDS

By Conner Middelmann

The Eurobond market leaped back to life yesterday and issuance volumes soared: the US dollar sector saw $2.35bn of new issues, and the D-Mark sector nearly DM5bn of new supply, including DM3bn of domestic bonds.

The floating-rate sector was particularly active, spawning $1.1bn of dollar issues following the success of last week's $2bn jumbo offering for the UK and a $500m deal for Westpac.

"There's a lot of liquidity out there: we are seeing heavy redemptions and there hasn't been much supply," said one trader. He said about $7.25bn of dollar-denominated FRNs will mature in September, $1.75bn in October, $5.75bn in November and $2.5bn in December.

Another dealer said interest rate uncertainty was also fuelling demand for FRNs. "A lot of money is moving to the short end – people think we're at the bottom of the cycle and are shortening duration." This, he said, had caused spreads on FRNs to tighten significantly, attracting borrowers to the sector.

Yesterday's largest dollar FRN, $500m of five-year notes for Midland Bank, was a resounding success, ending the day bid at the reoffer price and fully placed, despite its tight pricing, yielding flat on Libor at the re-offer price. Lead manager HSBC Markets said bonds were placed in Europe, the Middle East, the UK and non-Japan Asia.

Advance Bank Australia's $300m of five-year FRNs also saw strong demand from the UK, continental Europe and Asia, lead manager Merrill Lynch said. At a yield of 18 basis points over Libor they offered a pick-up over more tightly-priced recent deals and were fully placed, closing at the reoffer price.

A $300m two-year floater for National Australia Bank got a more tepid reception. It was deemed too aggressively priced at an all-in cost of 4 basis points below Libor. However, book-runner UBS said: "We sold half our ticket at Libor less 5 to corporates and money market funds looking for short-dated, double-A rated assets."

East Japan Railway successfully launched $800m of 10-year bonds. "The issue saw an extremely good reception – JR East is a blue chip company whose stock is well known internationally," said an official at IBJ International, joint book-runner with Goldman Sachs, adding that the issue had been significantly oversubscribed.

The bonds were deemed generously priced at 39 basis points over Treasuries, which narrowed by one basis point during the session.

Also in fixed rates, Landeskreditbank Baden-Württemberg issued $250m of retail-targeted four-year bonds via Merrill Lynch at 4 basis points over Treasuries, which was deemed aggressive. And Rabobank issued $200m of three-year bonds yielding 2 basis points over Treasuries via Nikko.

In the D-Mark sector, the Inter-American Development Bank issued its first benchmark bond since May 1995: DM500m of 10-year bonds which received a warm welcome.

"Following the success of the recent [Tennessee Valley Authority] issue, and given that there hasn't been much 10-year sovereign and triple-A supply, this seemed the right deal to do," said an official at Morgan Stanley, joint book-runner with Deutsche Morgan Grenfell.

The issue was launched at a spread of 16 basis points over bunds and sold out on the day, largely to investment institutions in continental Europe and Asia.

Landesbank Rheinland-Pfalz's DM1bn of seven-year bonds saw good demand in Europe and Asia but also in the US, where investors were able to buy the paper under SEC Rule 144a. The spread of 20 basis points over bunds was widely deemed as fair. Lehman Brothers and Morgan Stanley were joint book-runners.

Komercni Banka, the Czech Republic's leading bank, made its successful debut in the *D-Mark sector*, the first Czech borrower to tap this currency.

Its DM300m of three-year FRNs were finely priced at a reoffer spread of 22 basis points over Libor. While the issue was not sold, it saw good demand from banks in Europe and Japan, said joint leads Deutsche Morgan Grenfell and Merrill Lynch.

Cades picks lead managers for FFr12bn issue

Cades, the body set up to manage the French social security system's accumulated debt of FFr140bn, yesterday chose BNP and Caisse Nationale du Crédit Agricole to lead-manage its latest bond issue, Samer Iskandar writes. The FFr12bn of bonds maturing on July 25 2005 will be priced today at a yield of up to 7 basis points higher than equivalent OATs.

Market participants were expecting a reopening of one of two existing Cades issues, maturing in 2002 and 2007. Cades needs to redeem its debt over 13 years. The body could issue a series of bonds maturing in consecutive years to generate a smooth flow of funds, or bundle together larger liquid issues to reduce its borrowing costs.

"They could have saved 1 or 2 basis points by reopening the 2002 issue," one French syndication official said. "But it is in their interest to diversify as much as possible along the yield curve."

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
East Japan Railway Co	800	7.25	99.822R	Oct 2006	0.35R	+39(7%-06)	Goldman Sachs/IBJ Intl
Midland Bank‡	500	(a)	100.00R	Oct 2001	0.15R	-	HSBC Markets
Advance Bank Australia(b)‡	300	(b1,a)	99.78R	Nov 2001	0.175R	-	Merrill Lynch International
National Australia Bank‡	300	(c)	100.058R	Oct 1998	0.10R	-	JP Morgan/UBS
LKB Baden Wuerttemberg	250	6.50	99.89R	Oct 2000	0.225R	+4(i)	ABN Amro/Merrill Lynch
Rabobank Nederland(i)	200	6.375	99.798R	Dec 1999	0.1875R	+2(6%-99)	Nikko Europe
Hidroelectrica Piedra Aguila	100	10⅝#	99.677R	Oct 2001	0.875R	+425(WI 5yr)	Citibank/Merrill Lynch
D-MARKS							
LB Rheinland-Pfalz	1bn	5.75	99.48R	Oct 2003	0.30R	+20(6%-03)	Lehman/Morgan Stanley
Inter-American Dev Bank	500	6.125	98.98R	Oct 2006	0.325R	+16(6¼%-06)	Deutsche/Morgan Stanley
Komercni Bank Finance‡	300	(d)	99.94R	Oct 1999	0.20R	-	Deutsche/Merrill Lynch
Johnson & Johnson Medical	180	5.00	99.918R	Oct 2001	0.25R	+14(0.119)	JP Morgan
DSL Finance(e)	100	5.375	101.39R	Sep 2001	0.25R	+18(0.119)	Merrill Lynch/UBS
SWISS FRANCS							
Dresdner Bank	150	4.50	102.70	Nov 2006	2.75	-	Credit Suisse
FRENCH FRANCS							
Crédit Local de France	2bn	5.375	99.94R	Oct 2001	0.25R	+17(5¼%-01)	ABN Amro HG/BNP
LUXEMBOURG FRANCS							
Commerzbank	3bn	(f,i)	102.75	Dec 2006	2.00	-	Crédit Européen-BBL
ITALIAN LIRE							
European Investment Bank	1000bn	zero	28.684R	Oct 2011	0.10R	-	IMI Bank Luxembourg
Deutsche Finance(Neths)(g)	1000bn	zero	8.26R	Oct 2026	0.10R	-	Deutsche Morgan Grenfell
NEW ZEALAND DOLLARS							
HNG★	130	7.10	100.00	Oct 1997	1.35	-	Kokusai Europe

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor flat. b) Callable from Nov 1999 at par. b1) 3-mth Libor +12½bp. c) 3-mth Libor -6¼bp. d) 3-mth Libor +20bp. e) Fungible with DM300m. Plus 29 days accrued. f) 6% to 27/12/01, then 7% to 27/12/04 and 9¼% thereafter. g) L2,000bn launched 11/9/96 was increased to L3,000bn. § Over interpolated yield. ‖ Long 1st coupon. s) Short 1st coupon.

Mideast exchanges sign deal on listings

By Sean Evers in Cairo

The Egyptian, Kuwaiti and Lebanese stock exchanges have signed a deal to begin cross-listing next year.

Mr Hisham al-Utaibi, president of the Kuwaiti Stock Exchange, said cross-listing would "take place as soon as we create a unified clearing, settlement and custody institution".

The heads of the three exchanges and the Union of Arab Stock Exchanges will set up a committee to draft regulations for the three markets in accordance with international standards.

The market capitalisation of the Egyptian exchange is $10.5bn and that of the Kuwait bourse $18bn. The Beirut market currently only lists four companies with a capitalisation of less than $400m. However, Solidere, Lebanon's biggest company with a capitalisation of more than $2bn, *will be* listed shortly.

The Beirut bourse, which has been dormant since it reopened in January, should benefit the most from the increased liquidity generated by cross-listing.

● The Egypt Fund, a semi-closed country fund with quarterly redemptions, is to float a second tranche of shares, valued at $34m.

The company floated 5m shares in an initial offer priced at $10.20, raising $16m. The minimum investment in the first tranche was $100,000 and it was mostly placed with European institutional investors.

Hermes Financial Management (Egypt) is fund manager. Edmund de Rothschild is international placing agent, except in Saudi Arabia where Saudi American Bank has that role.

Italian sector outperforms but rally seen as fragile

GOVERNMENT BONDS

By Samer Iskandar in London and Lisa Bransten in New York

Optimism following the US Federal Reserve's decision to abstain from tightening monetary policy on Tuesday continued to drive bond markets yesterday. Although *European bonds followed* Treasuries higher, analysts said a partial decoupling had occurred between the two blocs, with Emu prospects increasingly setting the trend in Europe, particularly in the high-yielding Italian and Spanish markets.

■ Italian bonds again showed the strongest performance, with 10-year BTPs rising more than a full percentage point, tightening their yield spread over bunds by 4 basis points to 275 points.

Liffe's December BTP future reached an all-time record, closing 0.78 higher at 119.95, before climbing further to 120.22 after hours.

Mr Julian Jessop, chief European economist at Nikko Europe, described the recent rally as fragile. "Uncertainty linked to the forthcoming budget could cause some profit-taking," he said, predicting a possible widening of the yield spread over bunds to around 300 basis points. "At this level, buying interest would support the market," Mr Jessop *said. "It would take a real* political crisis to widen the spread beyond [300 points]."

■ Spanish bonds also performed strongly. The December bono future closed 0.45 higher at 105.84, while in the cash market the 10-year yield spread over bunds tightened marginally to 193 basis points. "The market believes Spain will meet the 3 per cent criterion [on the public deficit ratio over GDP, imposed by the Maastricht Treaty]", said Mr Kirit Shah, chief market strategist *at Sanwa International.*

■ UK gilts traded in line with Treasuries and bunds.

Liffe's December long gilt future settled at 108, up $\frac{7}{32}$. Analysts agreed gilts' persistent underperformance was due to the perception that the UK was left out of the convergence process but Mr Jessop said "this is a buying opportunity. The single currency is not a done deal yet, and gilts could benefit from any wobbles on Emu."

■ US Treasuries added to *the gains made* late on Tuesday. Near midday the benchmark 30-year Treasury was $\frac{11}{32}$ higher at 96$\frac{3}{32}$ to yield 6.939 per cent and the two-year note was $\frac{1}{32}$ stronger at 100$\frac{1}{32}$, yielding 6.070 per cent. The December 30-year bond future rose $\frac{1}{32}$ to 108$\frac{11}{32}$.

Mr Woody Jay, head of global government trading at Lehman Brothers, attributed some of the buying to hopes that the Fed might not raise interest rates through the end of the year. Figures on September employment levels, due at the end of next week, *should go some way to* establishing a consensus about the course of monetary policy.

Also helping bonds were rumours that the Federal Reserve had been in the market buying two-year and five-year notes.

There was little reaction to news that existing home sales edged down 0.5 per cent in August. The National Association of Realtors said that 4.13m homes were sold last month.

Although the data show continued strength in the *housing market – especially* when taken in concert with recent robust figures on new sales and home construction – they were in line with analysts' expectations.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	92.6010	+0.590	7.82	7.94	8.07
Austria		6.250	05/06	100.6400	+0.470	6.05	6.13	6.26
Belgium		7.000	05/06	105.1700	+0.620	6.26	6.39	6.62
Canada *	-	7.000	12/06	98.6500	+0.920	7.19	7.37	7.29
Denmark		8.000	03/06	106.3000	+0.300	7.05	7.12	7.18
France	BTAN	5.500	10/01	101.1840	+0.260	5.23	5.33	5.44
	OAT	6.500	10/06	102.6500	+0.400	6.14	6.22	6.35
Germany Bund		6.250	04/06	101.1200	+0.520	6.09	6.17	6.24
Ireland		8.000	08/06	108.1500	+0.460	7.11	7.25	7.51
Italy		9.500	02/06	105.3200	+1.070	8.657	9.01	9.18
Japan	No 140	6.600	06/01	121.2300	+0.150	1.73	1.76	2.12
	No 182	3.000	09/05	101.3972	+0.290	2.81	2.83	3.15
Netherlands		8.500	06/06	108.1500	+0.520	5.97	6.06	6.22
Portugal		9.500	02/06	108.2500	+0.260	8.05	8.22	8.70
Spain		8.800	04/06	104.8100	+0.480	8.02	8.32	8.82
Sweden		6.000	02/05	90.9958	+0.870	7.48	7.79	8.01
UK Gilts		8.000	12/00	103-15	+9/32	7.02	7.02	6.99
		7.500	12/06	98-10	+14/32	7.74	7.79	7.76
		9.000	10/08	108-26	+15/32	7.85	7.91	7.86
US Treasury *		7.000	07/06	102-01	+22/32	6.69	6.80	6.83
		6.750	08/26	97-15	+25/32	6.95	7.01	7.06
ECU (French Govt)		7.000	04/06	103.9600	+0.470	6.43	6.63	6.78

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	124.36	124.52	+0.40	124.64	124.26	118,887	207,062
Mar	124.24	124.38	+0.40	124.46	124.16	1,501	20,332
Jun	123.16	123.30	+0.40	123.16	123.16	2	406

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98.40	98.68	+0.51	98.80	98.28	205721	228058
Mar	97.36	97.69	+0.50	97.80	97.31	1084	2350

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9850	0.59	0.83	0.54	0.86	0.41	0.65	1.35	1.67
9900	0.34	0.58	0.37	0.66	0.66	0.90	1.68	1.97
9950	0.17	0.39	0.25	0.51	0.99	1.21	2.06	2.32

Est. vol. total, Calls 27759 Puts 20946. Previous day's open int., Calls 130450 Puts 125824

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	119.40	119.95	+0.78	120.29	118.39	72360	75011
Mar		119.25	+0.78				718

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
11950	1.59	1.93	1.14	2.18
12000	1.31	1.66	1.36	2.43
12050	1.07	1.45	1.62	2.70

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	105.80	105.84	+0.46	105.94	105.43	87,513	75,441

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	109-11	108-22	+0-17	108-17	108-08	745	9080
Dec	107-18	108-00	+0-17	108-03	107-08	115192	120534

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	93.12	93.28	+0.34	93.36	93.12	3,257	7,798

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	108-18	108-28	+0-05	108-29	108-12	354,928	359,872
Mar	108-08	108-09	+0-04	108-12	107-30	2,285	20,336
Jun	107-16	107-27	+0-05	107-27	107-16	236	5,074

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) YI00m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Dec	122.31	-		122.36	122.18	1161	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Sep 25	Day's change %	Tue Sep 24	Accrued interest	xd adj. ytd		Low coupon yield Sep 25	Sep 24	Yr. ago	Medium coupon yield Sep 25	Sep 24	Yr. ago	High coupon yield Sep 25	Sep 24	Yr. ago
1 Up to 5 years (22)	121.16	0.19	120.93	1.81	7.80	5 yrs	7.16	7.24	7.77	7.23	7.29	7.76	7.29	7.35	7.85
2 5-15 years (20)	148.78	0.29	148.35	3.20	7.51	15 yrs	8.01	8.03	8.22	8.01	8.04	8.27	8.01	8.03	8.36
3 Over 15 years (9)	161.89	0.22	161.53	2.47	9.83	20 yrs	8.12	8.13	8.24	8.11	8.14	8.29	8.11	8.12	8.36
4 Irredeemables (6)	186.94	0.16	186.65	3.58	6.47	Irred.†	8.16	8.16	8.32						
5 All stocks (56)	142.71	0.24	142.38	2.58	8.15										

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Sep 25	Sep 24	Sep 23	Sep 20	Sep 19	Yr ago	High*	Low*
Govt. Secs. (UK)	93.28	93.31	93.15	93.31	93.54	92.98	96.34	91.59
Fixed Interest	113.28	113.13	113.15	113.14	113.04	115.23	110.74	

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Sep 24	Sep 23	Sep 20	Sep 19	Sep 18
Gilt Edged bargains	91.4	87.2	93.2	96.3	99.1
5-day average	93.4	94.3	95.3	93.9	90.8

FT/ISMA INTERNATIONAL BOND SERVICE

UK GILTS PRICES

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European buying helps US dollar bounce back

MARKETS REPORT

By Richard Adams

The European currency markets came to the rescue of the US dollar yesterday. The dollar recovered in European trading following the currency's overnight slide in the wake of the Federal Reserve's decision to leave US interest rates untouched.

The dollar fell sharply on the news that the Federal Open Markets Committee had not raised interest rates, as many had expected, touching lows around DM1.5010 and Y109.00 in New York.

But the dollar made a steady recovery after the European markets opened. By the close of trading in London yesterday it had returned to its previous levels.

Against the D-Mark the dollar closed at DM1.5102, not far below the previous day's close of DM1.5132.

Against the Japanese yen the dollar strengthened to Y110.295, from Y109.795.

Sterling enjoyed a good day against all the major currencies. Against the D-Mark the pound rose to DM2.3627 from DM2.3576, while against the dollar it was worth $1.5645, compared with $1.5580.

Sterling was particularly buoyant against the yen, rising over one and a half yen on the day to Y172.557, from Y171.014.

The D-Mark's weakness spilled over into its cross-rates against other European currencies. While it was stable against the French franc, closing at FFr3.384 from FFr3.382, it fell against the Italian lira. The D-Mark finished at L1,003, from L1,006.

The Greek drachma also had a favourable session against the D-Mark, following the weekend election which resulted in the appointment of a hardline economic ministry team.

Before the election the drachma was trading at Dr158.826 to the D-Mark. Yesterday it was trading around Dr157.70.

■ The FOMC's decision on interest rates pushed up US government bond prices yesterday. This was followed by rises in European interest rate futures prices.

By close of trading in Paris, December Pibor futures were up six basis points to 96.26, from 96.20.

Three month euromark December futures were at 96.86 last night, also six basis points up on the previous day's 96.80, suggesting lower interest rate expectations.

■ The European monetary union bandwagon continued rolling yesterday, with heavy buying reported of high-yielding peripheral European currencies against the D-Mark. D-Mark selling against currencies such as the lira also helped the dollar's recovery.

Mr Jeremy Hawkins, chief economist in London for the Bank of America, said: "There has been a very good performance in the high-yielders, which has helped undermine the D-Mark."

Mr Hawkins said demand for "convergence" trading, the buying of weaker European currencies against the D-Mark, had begun to lose momentum recently. But the pro-Emu tone of the European finance ministers meeting last weekend had given new impetus to convergence.

The possibility of a further cut in Swiss discount rates, which already stand at 1.50 per cent, also put downwards pressure on the D-Mark, Mr Hawkins said.

"It's not just a case of people expecting Germany to cut its rates, but that the big alternative to the D-Mark might also cut rates."

■ Sweden's central bank said it would increase its buying and selling activity on the currency markets to stabilise the krona.

"These interventions are not intended to defend any pre-set level for the crown," a bank spokesman said. "Neither should they be seen in the context of possible preparations for exchange rate mechanism (ERM) entry," he added.

Earlier, the chairman of the board of Sweden's central bank said he believed Sweden would need to join the ERM to qualify for Emu.

"We can't have a floating exchange rate right up until the day we merge with the Euro," Mr Kjell-Olof Feldt, the board chairman and former finance minister, said.

Meanwhile, Mr Paavo Lipponen, Finland's prime minister, said the Finnish economy would next year fulfil the criteria for joining Emu.

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■ Pound in New York

Sep 25	—Latest—	—Prev. close—
£ spot	1.5645	1.5655
1 mth	1.5639	1.5650
3 mth	1.5632	1.5645
1 yr	1.5611	1.5630

■ OTHER CURRENCIES

Sep 25	£	$
Czech Rp	41.9434 - 42.0363	26.8160 - 26.8430
Hungary	238.918 - 240.143	153.400 - 153.450
Iran	4685.00 - 4692.50	3000.00 - 3001.00
Kuwait	0.4694 - 0.4695	0.2995 - 0.3000
Poland	4.3538 - 4.3601	2.7830 - 2.7865
Russia	8436.34 - 8447.87	5390.00 - 5396.00
UAE	5.7444 - 5.7464	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Sep 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.6223	+0.0363	137 - 308	16.6310	16.5269	16.591	2.3	16.516	2.6	-	-	104.8
Belgium	(BFr)	48.6580	+0.1067	091 - 068	48.7100	48.4080	48.581	2.3	48.371	2.3	47.601	2.2	105.5
Denmark	(DKr)	9.0843	+0.0346	796 - 887	9.0890	9.0323	9.0705	1.8	9.0503	1.5	8.9424	1.8	107.8
Finland	(FM)	7.0924	+0.01	882 - 965	7.1020	7.0450	7.088	0.7	7.0799	0.7	-	-	81.3
France	(FFr)	7.9968	+0.0184	920 - 016	8.0012	7.9699	7.9824	2.1	7.9584	1.9	7.8515	1.5	108.1
Germany	(DM)	2.3627	+0.0051	615 - 638	2.3648	2.3494	2.3578	2.5	2.3481	2.5	2.3059	2.4	108.3
Greece	(Dr)	372.690	+0.009	482 - 877	375.193	371.288	-	-	-	-	-	-	67.8
Ireland	(I£)	0.9727	+0.0004	720 - 733	0.9733	0.9711	0.9722	0.6	0.971	0.7	0.9665	0.6	95.8
Italy	(L)	2368.59	-2.31	696 - 082	2373.81	2361.56	2374.44	-2.8	2384.29	-2.6	2416.79	-2.0	77.3
Luxembourg	(LFr)	48.6580	+0.1067	091 - 068	48.7100	48.4080	48.581	2.3	48.371	2.3	47.601	2.2	105.5
Netherlands	(Fl)	2.6491	+0.0063	479 - 503	2.6508	2.6364	2.6443	2.1	2.6371	2.1	2.6032	1.7	106.5
Norway	(NKr)	10.0751	+0.0028	703 - 799	10.1439	10.0531	10.0658	1.0	10.0496	1.0	9.9661	1.1	98.8
Portugal	(Es)	240.534	+0.431	418 - 650	241.081	239.659	240.669	-0.2	241.884	-2.2	-	-	95.6
Spain	(Pta)	198.707	+0.373	565 - 849	198.958	197.973	198.967	-1.6	199.452	-1.5	200.882	-1.1	80.5
Sweden	(SKr)	10.3225	+0.058	122 - 328	10.3339	10.2811	10.3228	0.0	10.3229	0.0	10.3209	0.0	90.1
Switzerland	(SFr)	1.9398	+0.0023	384 - 412	1.9412	1.9179	1.9348	3.1	1.914	3.3	1.8658	3.3	111.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	86.4
Ecu	-	1.2385	-	376 - 394	1.2394	1.2356	1.2372	1.3	1.2342	1.4	1.2208	1.4	-
SDR†	-	1.076700	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5643	+0.0065	636 - 648	1.5653	1.5620	-	-	-	-	-	-	-
Brazil	(R$)	1.5981	+0.0075	954 - 988	1.5999	1.5935	-	-	-	-	-	-	-
Canada	(C$)	2.1378	+0.007	367 - 389	2.1395	2.1344	2.1371	0.4	2.1334	0.8	2.1254	0.6	84.3
Mexico	(New Peso)	11.7823	+0.0361	722 - 923	11.7981	11.7606	-	-	-	-	-	-	-
USA	($)	1.5645	+0.0065	640 - 650	1.5655	1.5622	1.5639	0.5	1.5634	0.3	1.5621	0.2	97.0
Pacific/Middle East/Africa													
Australia	(A$)	1.9778	+0.004	765 - 790	1.9870	1.9754	1.9804	-1.5	1.9854	-1.5	2.0107	-1.7	93.4
Hong Kong	(HK$)	12.0989	+0.0498	925 - 010	12.1043	12.0797	12.0887	0.8	12.0771	0.7	12.0578	0.3	-
India	(Rs)	55.7746	+0.2318	438 - 053	56.1100	55.4310	-	-	-	-	-	-	-
Israel	(Shk)	4.9608	+0.0189	552 - 664	4.9667	4.9494	-	-	-	-	-	-	-
Japan	(Y)	172.557	+1.543	447 - 667	172.670	171.080	171.832	5.0	170.342	5.1	165.927	5.0	132.0
Malaysia	(M$)	3.9139	+0.0169	119 - 159	3.9165	3.9062	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2374	+0.0061	359 - 392	2.2417	2.2342	2.2424	-2.7	2.2519	-2.6	2.2857	-2.2	110.1
Philippines	(Peso)	41.0604	+0.1707	766 - 436	41.1502	40.8161	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8677	+0.0244	655 - 698	5.8711	5.8592	-	-	-	-	-	-	-
Singapore	(S$)	2.2037	+0.0105	028 - 046	2.2051	2.1987	-	-	-	-	-	-	-
South Africa	(R)	7.0598	+0.0277	497 - 699	7.0705	7.0485	-	-	-	-	-	-	-
South Korea	(Won)	1285.00	+5.34	451 - 549	1285.75	1283.19	-	-	-	-	-	-	-
Taiwan	(T$)	42.9768	+0.1474	474 - 062	43.0269	42.9269	-	-	-	-	-	-	-
Thailand	(Bt)	39.6906	+0.147	740 - 072	39.7110	39.6230	-	-	-	-	-	-	-

† Rates for Sep 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	10.6247	-0.021	226 - 267	10.6315	10.5610	10.6052	2.2	10.5632	2.3	10.3797	2.3	104.8
Belgium	(BFr)	31.1000	-0.08	800 - 200	31.1400	30.9350	31.045	2.1	30.9375	2.1	30.435	2.1	106.2
Denmark	(DKr)	5.8065	-0.002	035 - 075	5.8085	5.7730	5.799	1.5	5.782	1.7	5.713	1.6	107.0
Finland	(FM)	4.5333	-0.0125	308 - 358	4.5421	4.5007	4.5266	1.7	4.5148	1.5	4.4698	1.4	84.5
France	(FFr)	5.1113	-0.0095	100 - 125	5.1137	5.0960	5.1057	1.3	5.0965	1.7	5.0208	1.8	108.2
Germany	(DM)	1.5102	-0.003	099 - 104	1.5113	1.5018	1.5075	2.1	1.5017	2.2	1.4745	2.4	107.7
Greece	(Dr)	238.210	-1	160 - 260	239.970	237.280	239.885	-8.4	243.235	-8.4	257.21	-8.0	69.2
Ireland	(I£)	1.6085	+0.0006	076 - 090	1.6113	1.6050	1.6091	-0.4	1.6099	-0.3	1.6015	0.4	-
Italy	(L)	1514.15	-7.5	340 - 490	1517.78	1510.84	1518.9	-3.8	1527.05	-3.4	1549.8	-2.4	76.4
Luxembourg	(LFr)	31.1000	-0.08	800 - 200	31.1500	30.9350	31.045	2.1	30.9375	2.1	30.435	2.1	106.2
Netherlands	(Fl)	1.6933	-0.0036	930 - 935	1.6942	1.6847	1.69	2.4	1.6826	2.5	1.6511	2.5	106.2
Norway	(NKr)	6.4398	-0.0251	388 - 408	6.4850	6.4239	6.4365	0.5	6.4313	0.5	6.3948	0.7	97.8
Portugal	(Es)	153.745	-0.365	720 - 770	154.520	153.290	154.08	-2.5	154.85	-2.4	156.795	-2.0	95.7
Spain	(Pta)	127.010	-0.29	980 - 060	127.130	126.550	127.29	-2.4	127.69	-2.1	129.23	-1.7	80.2
Sweden	(SKr)	6.5980	+0.0037	935 - 024	6.6026	6.5437	6.5971	0.2	6.5965	-0.1	6.5745	0.4	89.9
Switzerland	(SFr)	1.2335	-0.0037	330 - 340	1.2344	1.2253	1.23	3.5	1.2226	3.6	1.189	3.6	111.0
UK	(£)	1.5645	+0.0065	640 - 650	1.5655	1.5622	1.5639	0.5	1.5634	0.3	1.5621	0.2	83.8
Ecu	-	1.2632	+0.0051	627 - 637	1.2661	1.2616	1.264	-0.7	1.2656	-0.8	1.2745	-0.9	-
SDR†	-	0.69110	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0202	+0.0005	201 - 203	1.0204	1.0200	-	-	-	-	-	-	-
Canada	(C$)	1.3665	-0.0012	662 - 667	1.3670	1.3659	1.3665	0.1	1.3666	0.0	1.3684	-0.2	83.5
Mexico	(New Peso)	7.5310	-0.007	270 - 350	7.5350	7.5270	7.5625	-25.7	7.8775	-18.4	9.641	-28.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.8
Pacific/Middle East/Africa													
Australia	(A$)	1.2641	-0.0027	637 - 645	1.2692	1.2635	1.2661	-1.9	1.2698	-1.7	1.2883	-1.9	94.5
Hong Kong	(HK$)	7.7321	-0.0003	318 - 323	7.7325	7.7317	7.7326	-0.1	7.7348	-0.1	7.7616	-0.4	-
India	(Rs)	35.6500	-	500 - 500	35.8800	35.4450	35.8	-5.0	36.105	-5.1	37.575	-5.4	-
Israel	(Shk)	3.1709	-0.0011	688 - 734	3.1735	3.1650	-	-	-	-	-	-	-
Japan	(Y)	110.295	+0.52	250 - 330	110.570	109.290	109.85	4.8	108.95	4.9	105.21	4.6	133.1
Malaysia	(M$)	2.5017	+0.0004	012 - 022	2.5025	2.4979	2.5026	-0.4	2.5087	-1.1	2.5322	-1.2	-
New Zealand	(NZ$)	1.4300	-0.002	294 - 306	1.4319	1.4293	1.4331	-2.6	1.4389	-2.5	1.4635	-2.3	-
Philippines	(Peso)	26.2450	-	000 - 900	26.2900	26.2000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7508	3.7502	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4086	+0.0009	083 - 088	1.4089	1.4083	1.4051	3.0	1.3991	2.7	1.3736	2.5	-
South Africa	(R)	4.5125	-0.001	075 - 175	4.5180	4.5065	4.56	-12.8	4.66	-12.2	4.9675	-10.5	-
South Korea	(Won)	821.350	-	300 - 400	821.900	821.300	-	-	-	-	-	-	-
Taiwan	(T$)	27.4700	-0.02	600 - 800	27.4980	27.4590	27.475	-0.2	27.48	-0.1	-	-	-
Thailand	(Bt)	25.3695	-0.0115	670 - 720	25.3730	25.3540	25.477	-5.1	25.647	-4.4	26.2845	-3.6	-

† SDR rate per $ for Sep 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 24: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

September 25	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3	3¼	3¼	3½	6.00	2.50	-
week ago	3¼	3	3¼	3¼	3½	6.00	2.50	-
France	3¾	3⅞	3⅞	3⅞	3¾	3.35	-	4.75
week ago	3⅞	3⅞	3⅞	3⅞	3¾	3.35	-	4.75
Germany	3¼	3¼	3¼	3¼	3¼	4.50	2.50	3.00
week ago	3¼	3¼	3	3	3¼	4.50	2.50	3.00
Ireland	5⅝	5½	5¾	5⅝	6	-	-	6.25
week ago	5⅝	5½	5⅝	5⅝	6	-	-	6.25
Italy	8¼	8¼	8¼	8¼	7⅞	-	8.25	8.50
week ago	8⅝	8¼	8¼	8¼	7⅞	-	8.25	8.50
Netherlands	2⅞	2⅞	2⅞	2⅞	3⅛	-	3.00	3.30
week ago	2⅞	2⅞	2⅞	2⅞	3⅛	-	3.00	3.30
Switzerland	1¼	1¾	1⅞	1⅞	1⅞	-	1.50	-
week ago	1⅝	1⅝	1⅝	2	2¼	-	1.50	-
US	5¼	5¼	5¼	5⅜	5⅞	-	5.00	-
week ago	5⅜	5¼	5⅜	5⅝	5⅞	-	5.00	-
Japan	½	½	½	½	¾	-	0.50	-
week ago	½	½	½	½	¾	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5½	5⅝	5¾	6⅛	-	-	-
week ago	-	5½	5⅝	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.10	5.20	5.35	5.64	-	-	-
week ago	-	5.10	5.20	5.45	5.75	-	-	-
ECU Linked Ds	-	4¼	4¼	4¼	4⅜	-	-	-
week ago	-	4¼	4¼	4⅛	4⅜	-	-	-
SDR Linked Ds	-	3¼	3¼	3⅛	3⅝	-	-	-
week ago	-	3¼	3¼	3⅛	3⅝	-	-	-

■ $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 25	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.23	96.26	+0.06	96.27	96.23	23,030	64,297
Mar	96.19	96.20	+0.05	96.21	96.17	10,470	39,421
Jun	96.06	96.11	+0.07	96.11	96.06	3,078	24,745

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.82	96.85	+0.05	96.86	96.81	48169	227485
Mar	96.75	96.77	+0.06	96.80	96.73	28223	214414
Jun	96.54	96.59	+0.08	96.62	96.53	21124	160606
Sep	96.27	96.33	+0.09	96.35	96.27	22844	128885

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.06	92.09	+0.07	92.12	92.06	26308	56106
Mar	92.45	92.50	+0.09	92.54	92.45	11377	32003
Jun	92.61	92.68	+0.10	92.72	92.61	5544	24259
Sep	92.67	92.72	+0.10	92.75	92.67	1882	12802

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.18	98.26	+0.12	98.26	98.18	10007	42084
Mar	98.09	98.16	+0.13	98.16	98.08	6450	21687
Jun	97.82	97.92	+0.13	97.92	97.82	1512	8371
Sep	97.58	97.65	+0.14	97.65	97.58	324	2238

■ THREE MONTH EUROYEN (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.37	99.37	+0.02	99.37	99.37	25	n/a
Mar	99.21	99.21	+0.03	99.22	99.21	1472	n/a
Jun	99.02	99.02	+0.04	99.02	99.02	225	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.81	95.83	+0.05	95.84	95.80	1364	8872
Mar	95.77	95.80	+0.06	95.80	95.77	701	3632
Jun	95.70	95.72	+0.07	95.73	95.68	346	2906
Sep	95.49	95.54	+0.08	95.54	95.49	443	1700

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 25		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.67	16.43	4.856	2.000	4868	5.444	20.72	494.2	408.3	21.21	3.966	2.055	4.394	3.216	354.7	2.546
Denmark	(DKr)	53.57	10	8.803	2.601	1.071	2608	2.916	11.10	264.8	218.7	11.36	2.125	1.101	2.354	1.723	190.0	1.364
France	(FFr)	60.85	11.36	10	2.955	1.217	2962	3.312	12.60	300.7	248.5	12.90	2.413	1.250	2.674	1.957	215.8	1.549
Germany	(DM)	20.59	3.844	3.384	1	0.412	1003	1.121	4.266	101.8	84.09	4.367	0.817	0.423	0.905	0.662	73.04	0.524
Ireland	(I£)	50.01	9.336	8.219	2.429	1	2435	2.723	10.36	247.2	204.2	10.61	1.984	1.028	2.197	1.608	177.4	1.273
Italy	(L)	2.054	0.383	0.338	0.100	0.041	100.	0.112	0.425	10.15	8.388	0.436	0.081	0.042	0.090	0.066	7.286	0.052
Netherlands	(Fl)	18.37	3.429	3.019	0.892	0.367	894.3	1	3.805	90.79	75.01	3.896	0.729	0.378	0.807	0.591	65.16	0.468
Norway	(NKr)	48.27	9.012	7.934	2.344	0.965	2350	2.628	10	238.6	197.1	10.24	1.915	0.992	2.121	1.553	171.2	1.229
Portugal	(Es)	20.23	3.777	3.325	0.983	0.405	985.0	1.101	4.191	100.	82.62	4.291	0.802	0.416	0.889	0.651	71.77	0.515
Spain	(Pta)	24.49	4.572	4.025	1.189	0.490	1192	1.333	5.073	121.0	100.	5.194	0.971	0.503	1.076	0.788	86.86	0.624
Sweden	(SKr)	47.15	8.802	7.749	2.290	0.943	2296	2.567	9.767	233.0	192.5	10	1.870	0.969	2.072	1.516	167.2	1.201
Switzerland	(SFr)	25.21	4.707	4.144	1.224	0.504	1227	1.373	5.223	124.6	103.0	5.347	1	0.518	1.108	0.811	89.43	0.642
UK	(£)	48.66	9.084	7.997	2.363	0.973	2369	2.649	10.08	240.5	198.7	10.32	1.930	1	2.138	1.565	172.6	1.239
Canada	(C$)	22.76	4.249	3.740	1.105	0.455	1108	1.239	4.715	112.5	92.94	4.827	0.903	0.468	1	0.732	80.73	0.580
US	($)	31.09	5.804	5.110	1.510	0.622	1514	1.693	6.441	153.7	127.0	6.594	1.233	0.639	1.366	1	110.3	0.792
Japan	(Y)	28.19	5.263	4.633	1.369	0.564	1373	1.535	5.840	139.3	115.1	5.979	1.118	0.579	1.239	0.907	100.	0.718
Ecu		39.27	7.332	6.454	1.907	0.785	1912	2.138	8.136	194.1	160.4	8.329	1.558	0.807	1.726	1.263	139.3	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6690	0.6668	-0.0030	0.6700	0.6660	21,118	59,292
Mar	0.6710	0.6708	-0.0035	0.6710	0.6703	44	1,209
Jun	-	0.6788	-	-	-	2,000	2,112

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8228	0.8190	-0.0037	0.8235	0.8182	16,261	37,606
Mar	-	0.8270	-0.0037	-	0.8266	26	1,334
Jun	-	0.8352	-0.0037	-	0.8352	1	57

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9274	0.9175	-0.0092	0.9284	0.9168	14,420	70,358
Mar	0.9305	0.9300	-0.0093	0.9305	0.9299	303	1,732
Jun	-	0.9519	-	-	-	2	197

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5654	1.5628	-0.0026	1.5666	1.5604	8,937	39,270
Mar	-	1.5610	-0.0046	-	1.5610	1	77
Jun	-	1.5610	-0.0046	-	1.5610	4	2

UK INTEREST RATES

LONDON MONEY RATES

Sep 25	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5$\frac{11}{16}$ - 5¼	5⅞ - 5¾	5⅞ - 5¾	6 - 5⅞	6⅛ - 5⅞	6$\frac{5}{16}$ - 6$\frac{3}{16}$
Sterling CDs	-	-	5$\frac{27}{32}$ - 5$\frac{25}{32}$	5$\frac{31}{32}$ - 5$\frac{29}{32}$	5$\frac{29}{32}$ - 5$\frac{27}{32}$	6$\frac{5}{16}$ - 6$\frac{3}{16}$
Treasury Bills	-	-	5$\frac{11}{16}$ - 5⅝	5⅞ - 5$\frac{13}{16}$	-	-
Bank Bills	-	-	5$\frac{25}{32}$ - 5$\frac{23}{32}$	5$\frac{29}{32}$ - 5$\frac{27}{32}$	5$\frac{29}{32}$ - 5$\frac{27}{32}$	-
Local authority deps.	5⅝ - 5½	5$\frac{11}{16}$ - 5$\frac{9}{16}$	5$\frac{11}{16}$ - 5$\frac{9}{16}$	5¾ - 5⅝	5¾ - 5⅝	6$\frac{1}{16}$ - 5$\frac{15}{16}$
Discount Market deps	5⅞ - 5$\frac{11}{16}$	5¾ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 8, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Sep 20, 5.5432pc. ECGD fixed rate Stlg. Export Finance. Make up day Aug 30, 1996. Agreed rate for period Sep 25, 1996 to Oct 25, 1996, Schemes II & III 7.07pc. Reference rate for period Aug 1, 1996 to Aug 30, 1996, Schemes IV & V 5.825pc. Finance House Base Rate 6pc from Sep 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.04	94.03	+0.03	94.04	93.98	31449	116298
Mar	93.86	93.86	+0.03	93.88	93.81	21254	79076
Jun	93.54	93.56	+0.05	93.57	93.50	18740	77219
Sep	93.19	93.22	+0.07	93.23	93.15	7164	41940
Dec	92.86	92.90	+0.08	92.91	92.82	4424	31710

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9400	0.12	0.14	0.15	0.09	0.28	0.59
9425	0.03	0.06	0.09	0.25	0.45	0.78
9450	0.01	0.02	0.05	0.48	0.66	0.99

Est. vol. total, Calls 10835 Puts 0421. Previous day's open int., Calls 100389 Puts 119119

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Cyprus Popular Bank	5.75	NatWestminster	5.75
Allied Trust Bank	5.75	Duncan Lawrie	5.75	●Rea Brothers	5.75
AIB Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
●Henry Ansbacher	5.75	Financial & Gen Bank	7.00	●Singer & Friedlander	5.75
Bank of Baroda	5.75	●Robert Fleming & Co	5.75	●Smith & Williamson Secs	5.75
Banco Bilbao Vizcaya	5.75	Girobank	5.75	Scottish Widows Bank	5.75
Bank of Cyprus	5.75	●Guinness Mahon	5.75	TSB	5.75
Bank of Ireland	5.75	Habib Bank AG Zurich	5.75	United Bank of Kuwait	5.75
Bank of India	5.75	●Hambros Bank	5.75	Unity Trust Bank Plc	5.75
Bank of Scotland	5.75	Heritable & Gen Inv Bk	5.75	Western Trust	5.75
Barclays Bank	5.75	●Hill Samuel	5.75	Whiteaway Laidlaw	5.75
Brit Bk of Mid East	5.75	C. Hoare & Co	5.75	Yorkshire Bank	5.75
●Brown Shipley & Co Ltd	5.75	Hongkong & Shanghai	5.75		
Citibank NA	5.75	Julian Hodge Bank	5.75		
Clydesdale Bank	5.75	●Leopold Joseph & Sons	5.75		
The Co-operative Bank	5.75	Lloyds Bank	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	*Mount Credit Corp	6.00		

● Members of London Investment Banking Association
* In administration

EMS EUROPEAN CURRENCY UNIT RATES

Sep 25	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.067	-0.041	-0.88	2.14	8
Portugal	195.792	195.050	+0.03	-0.38	1.63	3
Ireland	0.792214	0.789405	+0.000174	-0.35	1.60	2
Netherlands	2.15214	2.14802	+0.00093	-0.19	1.44	1
Belgium	39.3960	39.4479	+0.022	0.13	1.11	-1
Germany	1.91007	1.91559	+0.00095	0.29	0.95	-3
Austria	13.4383	13.4777	+0.0065	0.29	0.95	-2
Denmark	7.28580	7.36086	+0.0065	1.03	0.21	-7
France	6.40608	6.48558	-0.0001	1.24	0.00	-10
NON ERM MEMBERS						
Greece	292.867	302.470	-0.334	3.28	-1.97	-
Italy	2106.15	1922.18	-6.1	-8.73	10.93	-
UK	0.786652	0.812090	-0.000099	3.23	-1.93	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
1.540	2.58	2.79	3.05	-	0.28	0.54
1.550	1.70	2.09	2.41	0.11	0.52	0.83
1.560	0.96	1.46	1.80	0.72	0.88	1.25
1.570	0.44	0.95	1.30	0.85	1.38	1.72
1.580	0.14	0.58	0.91	1.55	2.00	2.31

Previous day's vol., Calls N/A Puts N/A . Prev. day's open int., Calls N/A Puts N/A

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.18	94.21	+0.03	94.22	94.16	169,347	489,843
Mar	94.02	94.05	+0.03	94.07	93.99	152,828	356,154
Jun	93.85	93.87	+0.02	93.88	93.82	85,834	264,689

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.73	94.78	+0.04	94.79	94.73	320	4,165
Mar	94.58	94.61	+0.04	94.61	94.57	60	1,491
Jun	94.42	94.42	+0.02	-	-	10	15

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	CALLS Mar	PUTS Oct	PUTS Nov	PUTS Dec	PUTS Mar
9675	0.11	0.13	0.14	0.18	0.01	0.03	0.04	0.16
9700	0.01	0.02	0.03	0.07	0.16	0.17	0.18	0.30
9725	0	0	0	0.02	0.40	0.40	0.40	0.50

Est. vol. total, Calls 8524 Puts 3051. Previous day's open int., Calls 326607 Puts 245430

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9850	0.06	0.08	0.11	0.30	0.42	0.69
9875	0.03	0.03	0.05	0.52	0.62	0.88

Est. vol. total, Calls 605 Puts 60. Previous day's open int., Calls 3765 Puts 1141

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9200	0.27	0.65	0.86	0.16	0.15	0.18
9225	0.14	0.49	0.68	0.30	0.23	0.25
9250	0.06	0.33	0.52	0.47	0.33	0.34

Est. vol. total, Calls 6870 Puts 2713. Previous day's open int., Calls 66456 Puts 34586

S.G.W. Finance plc

£250,000,000

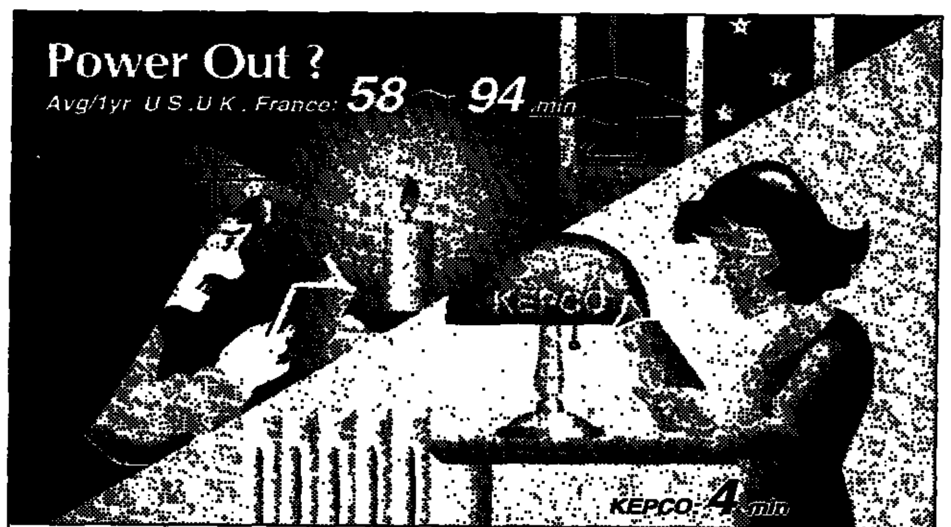
Guaranteed Floating Rate Notes 1998

unconditionally and irrevocably guaranteed by

S.G.Warburg Group plc

In accordance with the provisions of the Notes, notice is hereby given that, for the three month period, 24th September, 1996 to 24th December, 1996 the Notes will bear interest at the rate of 6.11406 per cent. per annum. Coupon No.11 will therefore be payable on 24th December, 1996 at £15.20 in respect of each £1,000 principal amount of the Notes.

S.G.Warburg & Co. Ltd.
Agent Bank



THE KANSAI ELECTRIC POWER CO.,INC.
3-22, Nakanoshima 3-chome, Kita-ku, Osaka 530 Japan
http://www.kepco.co.jp E-mail: finance@kepco.co.jp

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 25.09.96: Pool purchase price £/MWh	Final Prices for Trading on 28.08.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.07	9.04	10.04
0100	9.01	9.00	9.00
0130	9.01	9.03	9.03
0200	9.01	9.00	9.00
0230	9.01	9.00	9.00
0300	9.01	9.00	9.00
0330	9.01	9.00	9.00
0400	9.01	9.00	9.00
0430	9.00	9.00	9.00
0500	9.00	9.00	9.00
0530	9.03	9.00	9.00
0600	9.03	9.00	9.00
0630	9.02	9.01	9.01
0700	12.40	12.81	13.81
0730	12.51	13.11	14.16
0800	12.81	15.41	17.04
0830	13.34	21.37	24.54
0900	14.34	31.50	36.86
0930	17.12	42.12	49.50
1000	19.23	49.55	58.27
1030	22.15	52.25	61.43
1100	22.36	57.00	67.05
1130	23.36	71.04	82.82
1200	28.19	78.82	91.55
1230	28.24	91.30	103.41
1300	26.48	63.36	73.56
1330	23.61	45.43	53.30
1400	17.84	38.32	44.85
1430	17.40	33.66	39.29
1500	17.30	33.03	38.58
1530	17.33	34.14	39.94
1600	19.38	39.46	46.35
1630	28.59	58.56	68.75
1700	38.87	63.15	72.08
1730	40.89	57.80	65.65
1800	38.44	46.11	51.81
1830	35.13	21.93	25.19
1900	26.84	16.37	18.27
1930	45.67	10.61	10.61
2000	48.19	11.20	11.20
2030	36.04	18.27	20.56
2100	21.39	33.59	38.11
2130	15.29	32.42	34.70
2200	14.22	21.38	23.44
2230	12.54	13.48	14.56
2300	12.48	13.12	14.18
2330	12.38	12.88	13.89
2400	12.38	12.89	13.88

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.80/MWh becomes 1.080p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of this revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 940 6789 between 8:30am and 5:15pm Monday to Friday.
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NOTICE TO HOLDERS OF

Wakodo Company Limited
(the "Company")
Yen 2,000,000,000
5/8 Percent
Convertible Bonds Due 1998

Pursuant to condition 6(A) (iii) of the Terms and Conditions of the Bonds set out in the Second Schedule to the Trust Deed dated September 29th, 1994, constituting the Bonds, the Conversion Price shall be revised downward as follows:

a) Conversion Price before revision: Yen 6,773.90 per share

b) Conversion Price after revision: Yen 6,698 per share

The effective date of the revision: October 2, 1996 (Japan Time)

WAKODO COMPANY LIMITED
By: Bank of Tokyo-Mitsubishi Trust Company

Dated: September 26, 1996

ALLIANCE LEICESTER

Alliance & Leicester Building Society

£200,000,000

Floating Rate Notes due 1997

For the Interest Period 23rd September, 1996 to 23rd December, 1996 the Notes will carry a Rate of Interest of 6.0625% per annum with interest amounts of £150.73 per £10,000 and £1,507.34 per £100,000 Note, payable on 23rd December, 1996.

Listed on the Luxembourg Stock Exchange

Bankers Trust Company, London — Agent Bank

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Hon Kwok Land Capital Limited
(Incorporated with limited liability in the British Virgin Islands)

U.S. $60,000,000

5.30 per cent. Convertible Guaranteed Bonds due 2001
(the "Bonds")

convertible into shares of, and guaranteed by,

Hon Kwok Land Investment Company, Limited
(Incorporated with limited liability in Hong Kong)

Adjustment of Conversion Price of Bonds

On 18th June, 1996, the Directors of Hon Kwok Land Investment Company, Limited ("Hon Kwok") announced a proposed bonus issue of shares of HK $0.50 each of Hon Kwok on the basis of one share of Hon Kwok for every ten shares of Hon Kwok held on 19th September, 1996 (the "bonus issue"). The resolution approving the bonus issue was passed at the Annual General Meeting of Hon Kwok on 19th September, 1996.

In accordance with the terms and conditions of the trust deed dated 5th July, 1996 constituting the Bonds, the conversion price at which new shares will be issued upon the exercise of conversion rights attaching to the Bonds has been adjusted from HK $2.992 per share to HK $2.720 per share immediately following the approval of the bonus issue referred above.

By Order of the Board
Hon Kwok Land Capital Limited
Peter Chi-Chung Luk
Authorised Representative
Hon Kwok Land Investment Company, Limited
Herman Man-Hei Fung
Managing Director

Bankers Trust Company, London
26th September, 1996

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CREDIT LYONNAIS
USD 50,000,000.-
Undated Subordinated Step Up Variable Rate Notes

Noteholders are hereby informed that the rate applicable for the Coupon N°10 has been fixed at 6,64375 %.

The Coupon N°10 will be payable at the price of USD 16.701,65 on March 24th, 1997, covering the period as from September 24th, 1996 to March 23rd, 1997 (inclusive), and representing 181 days of interest.

The Agent Bank and Principal Paying Agent

CREDIT LYONNAIS LUXEMBOURG S.A.

COMMODITIES AND AGRICULTURE

Voisey's Bay man aims to repeat success with Zairean zinc project

By Kenneth Gooding, Mining Correspondent

Mr Jean-Raymond Boulle, *who left De Beers to seek a fortune in diamonds but hit the jackpot with the huge Voisey's Bay nickel deposit in Labrador*, is attempting to the repeat the process with a company that is starting with a zinc project in Zaire.

Drawing on his experience in Africa with De Beers and his native French – he was born in Mauritius – Mr Boulle's new company, American Mineral Fields, is about to complete a joint venture with Gecamines, the state owned Zairean group, to reopen the Kipushi zinc-copper mine in the Shaba region.

Mr Boulle says he hopes AMF will have more than 50 per cent of the joint venture which already has government approval.

AMF has also signed a 50-50 joint venture agreement with Anglo American *Corporation of South Africa*, one of the world's biggest mining groups, under the terms of which Anglo will fund the first US$100m of equity in any project either of the partners might undertake in the Shaba region.

Mr Boulle, 45, was De Beers' youngest general manager – in Zaire – and at the age of 29 set up dealing in large diamonds on his own account in Texas. After other diamond mining ventures he founded Diamond Fields Resources in 1992, went public in 1993 and discovered the Voisey's Bay nickel-cobalt deposit a year later. Diamond Fields was acquired earlier this year by Inco of Canada, the world's biggest nickel group, for more than C$4bn. Mr Boulle owned 10.1 per cent of Diamond Fields. He took Inco shares in exchange for his holding.

His new company, AMF, was set up last year and is soon to be listed on the Toronto exchange. He says his aim is to provide North American investors with a company through which they can be involved in the developing African mining boom. Most of AMF's senior management have moved from Diamond Fields while senior operational staff have been recruited from RTZ-CRA, Anglo American and De Beers.

Mr Boulle approached Gecamines about the Kipushi project after reading in the annual report that it was looking for joint venture partners. Kipushi's production peaked in 1988 at 143,000 tonnes of zinc and 43,000 tonnes of copper. Gecamines, starved of foreign earnings to reinvest in its operations, decided to concentrate on its cobalt interests and put Kipushi on care and maintenance in 1990.

Mr Boulle estimates that it will take a maximum of US$50m to reactivate the mine and for it to produce about 160,000 tonnes of zinc and 30,000 tonnes of copper a year. That would make Kipushi the world's ninth biggest zinc producer.

He suggests there is the potential for AMF to discover similar high grade zinc deposits in the large concession areas the company has tied up in Zaire and Zambia, where no exploration has been done using modern techniques.

Mr Boulle retains his affection for diamonds and the first properties to go into AMF were two diamond projects in Brazil. AMF also has a 50-50 joint venture with IDAS Resources to develop diamond concessions and other mineral properties held by IDAS in the Cuango River area of Angola. IDAS is a Belgian-Dutch company responsible for clearing anti-personnel mines from the war-torn country.

Competition stiffens in seaweed industry

Alistair Guild on a traditional and useful sideline for Hebridean crofters

Seaweed harvesting has been a tradition, not to mention a useful sideline, for as long as Hebridean crofters and fishermen can remember. But competition now is more intense than ever among the world's seaweed suppliers and the companies that extract the alginate and supply it, principally as a powder, to the textile, food and pharmaceutical industries.

It is less than 18 months since an integrated harvesting and production facility on the coast of Nova Scotia closed, after 20 years. The cost of obtaining the licence required under Canadian environmental regulations was said to be one factor. Another was insufficient economy of scale.

The market for Scottish "kelp" (a word now commonly applied to all large brown seaweeds) seems assured, for the next five years at least. Kelco, the multinational food industry products group, is the world's largest single producer of alginates. The company, bought last year by the American corporation Monsanto from Merck & Company for $1.06bn, has a contract to take 4,500 tonnes (wet weight) each year of Western Isles brown seaweed, principally ascophyllum nodosum. Kelco is expected to purchase an additional 2,500 tonnes this year to meet demand.

Ascophyllum grows in the "inter-tidal range" so in the Hebrides a full-day's harvesting is feasible only on five days each fortnight, during spring tides. It is possible for two cutters working together to produce about 50 tonnes (wet weight) in that time, collecting £15 a tonne.

A plant on the island of Benbecula collects, washes and mills the seaweed. The plant, operated by Uist Seaweed Processors, a locally owned company, is being modernised at a cost of £341,000, £80,000 of that a grant from Western Isles Enterprise. The agency insists on evidence of a firm commitment to purchase five year's output at least. The plant's capacity will be increased to 10,000 tonnes, the number of cutters could rise from the present 28 and a further three locals join the seven already employed in washing and milling.

"There is no shortage of seaweed here. Our problem is transport," says Mr James MacDonald, a local haulage contractor and the man behind USP. The haulier is paid £50 a tonne (wet) at Kelco's factory gate. But it is *still only feasible with a return load*, says Mr MacDonald. He is already filling up 300 lorries to transport 7,000 tonnes.

Kelco will close its own alginate manufacturing plant at Oban, on Scotland's mainland at the end of the year. It is one of three manufacturing facilities operated by Kelco, the others being at Girvan in Ayrshire and San Diego in California. The decision was taken on economic grounds, says the company. Consolidating its manufacturing is essential for it to remain competitive in the global market for alginate.

Overall world demand for alginates has increased by 3,000 tonnes since the early 1990s. Present world alginate production is now estimated at 27,000 tonnes with a market value of $230m. Textile printing accounts for 50 per cent of demand.

The alginate is mixed with pigment to control its viscosity, and so the clarity of the print. Another major application is in the making of ice cream and other dairy products. The alginate prevents the formation of coarse ice crystals and provides a smooth texture. It is in the textile industry where competition is strongest, particularly from the Chinese manufactured alginates.

It takes on average 20 tonnes of wet seaweed to make one tonne of alginate. Kelco's French, Norwegian and Chinese competitors use almost exclusively locally harvested seaweed. Kelco sources more internationally the 500,000 tonnes (wet) of brown seaweed it uses each year, its Scottish factories' requirements being some 100,000 tonnes.

Ascophyllum is just one of six major brown seaweed species containing economically attractive amounts of algin growing in northern or southern hemispheres. The species is concentrated around the shores of Iceland, Norway, Ireland, Scotland and Nova Scotia. The total annual harvest is 100,000 tonnes (wet). But Norway alone harvests a total of 180,000 tonnes of a range of brown seaweeds found in her waters.

World-wide, several million tonnes of brown seaweed are harvested each year, Mexico, US, Japan, Chile, Australia, Korea and South Africa being among the other countries supplying the alginate industry.

Several factors affect the economics of seaweed:

● Mechanical seaweed harvesters can reduce costs but are only suitable for countries with well-defined inshore rock plateaux, such as Iceland, Norway, Canada and California. Seaweeds growing in inter-tidal areas, such as ascophyllum can then be harvested at high tide, with an underwater cutter bar set a few feet below the surface. The west coast of Scotland, where one of these harvesters was developed, has a very irregular inshore rock pattern with rock pinnacles that can severely damage the harvester.

● Some seaweeds recover faster than others from harvesting. Ascophyllum takes three to five years to regrow, older plants generally taking longer. Macrocystis, mostly found off the Californian coast grows as fast as any other known plant. The same patch of sea can be harvested three times in one year.

● The Chinese have cultivated large areas of seaweed from spores, with the weed itself, mostly of the laminaria variety, being attached to cords. Cultivation of seaweed has generally been found to be uneconomic when labour costs are at all significant. Introducing unnaturally large canopies of seaweed to an area can also have important ecological consequences.

● Air-drying of seaweeds is possible in some countries, for example Chile. Iceland, with access to free geothermal energy, also exports its seaweed dried and ground.

● The amount of algin depends on the species, the part of the plant used and on the season. The durvillea species found in Australian waters contains the highest proportion of algin.

Processing innovation, energy efficiency and integration with processing of other seaweed products such as fertiliser would enhance the competitiveness of Western Isles sales, concluded a report on the industry by Scottish-based consultants Environment and Resource Technology published last year.

Tavay Organics, with a factory on the island of Lewis since the 1960s, provides an example of successful diversification. It sells not just dried seaweed to Kelco but other seaweed derived products in both dried and liquid form to island and mainland customers. These include fertilisers and plant and animal food. Basic dry meal sells at present for about £300 a tonne.

"People have been looking for alternatives to alginates as long as alginates have been around, and they are still around," says Mr Richard Searle, manager, international seaweed resources, at Kelco. "We are investing heavily in our alginate business, a statement in itself of our confidence in alginate's future."

Copper prices relinquish gains

MARKET REPORT

Forward **COPPER** prices relinquished early gains yesterday afternoon after the London Metal Exchange's three months delivery position again failed to challenge overhead resistance at $1,950 a tonne.

The main feature of the market, traders said, was a narrowing in the newly-established cash discount. Profit-taking and expectations of bank and US broker selling prevented the market pushing higher in the afternoon, they said, but cash metal buying and borrowing (buying cash and selling forward) reduced the cash to three months discount from $9 to less than $5.

The **ALUMINIUM** market was hesitant throughout, having been unable to make headway above $1,400 a tonne. That suggested another test of support was likely, traders said.

NICKEL prices settled back from midsession highs, although the market remained broadly stable throughout the afternoon. The last trade was at $7,260 a tonne, up $45.

Compiled from Reuters

Alcan makes move on Quebec smelter plan

By Robert Gibbens in Montreal

Alcan Aluminium of Canada has taken a key step towards getting started on its US$1bn Alma smelter project in northern Quebec. The company has filed an official project notification with the Quebec provincial government in preparation for public hearings.

The final decision on a construction go-ahead was still at least a year away, Alcan said. The smelter, with a maximum annual capacity of 350,000 tonnes, depending on market conditions, would replace an existing 50-year-old unit with 74,000 tonnes annual capacity.

This summer Alcan signed a contract with Hydro-Quebec that will provide it with an additional 350MW of power over and above its own captive power generating capacity in the Saguenay region. This would give the flexibility needed for the Alma smelter, the company said.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1361.5-62.5	1397-98
Previous	1360-61.5	1397-98
High/low	1364.5	1405/1397
AM Official	1364.5-65	1400-400.5
Kerb close		1401-02
Open Int.	213,720	
Total daily turnover	47,667	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1200-10	1225-30
Previous	1210-15	1235-38
High/low		1235/1230
AM Official	1200-05	1225-35
Kerb close		1225-30
Open Int.	4,765	
Total daily turnover	420	

■ LEAD ($ per tonne)

Close	773-4	777.5-8
Previous	777.5-8.5	782-3
High/low	780/778	784/778
AM Official	779-9.5	783-3.5
Kerb close		778-9
Open Int.	37,976	
Total daily turnover	5,773	

■ NICKEL ($ per tonne)

Close	7120-30	7235-40
Previous	7130-40	7245-50
High/low	7145	7269/7220
AM Official	7145-50	7265-69
Kerb close		7255-60
Open Int.	41,274	
Total daily turnover	9,084	

■ TIN ($ per tonne)

Close	6010-20	6070-75
Previous	6000-05	6064-65
High/low		6080/6050
AM Official	6010-20	6075-80
Kerb close		6070-75
Open Int.	16,235	
Total daily turnover	3,924	

■ ZINC, special high grade ($ per tonne)

Close	992-3	1018-19
Previous	993-4	1019.5-20
High/low		1021/1018
AM Official	994-5	1020-21
Kerb close		1017-18
Open Int.	74,364	
Total daily turnover	13,258	

■ COPPER, grade A ($ per tonne)

Close	1917-19	1924-25
Previous	1916-18	1925-26
High/low	1934/1920	1943/1917
AM Official	1930-34	1939-40
Kerb close		1922-23
Open Int.	183,411	
Total daily turnover	62,149	

■ LME AM Official £/$ rate: 1.5627
LME Closing £/$ rate: 1.5640

Spot: 1.5637 3 mths: 1.5626 6 mths: 1.5624 9 mths: 1.5620

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	91.20	+1.30	91.50	90.10	708	2,254
Oct	90.15	+0.50	90.60	89.20	428	2,240
Nov	89.90	+0.45	89.90	89.90	130	1,616
Dec	89.70	+0.55	90.40	88.80	4,933	25,274
Jan	89.45	+0.55	89.30	89.20	24	1,191
Feb	89.20	+0.55	–	–	1	633
Total					6,596	55,675

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	382.40-382.70		
Opening	382.80-383.10		
Morning fix	383.25	245.03	471.21
Afternoon fix	382.40	244.30	471.65
Day's High	383.25-383.55		
Day's Low	382.25-382.55		
Previous close	381.80-382.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.08 6 months 3.68
2 months ....4.04 12 months 3.85
3 months 3.98

Silver Fix	p/troy oz.	US cts equiv.
Spot	315.75	493.50
3 months	319.85	499.60
6 months	323.70	505.65
1 year	332.40	518.00

Gold Coins	$ price	£ equiv.
Krugerrand	385-388	247-249
Maple Leaf	387.50-389.95	
New Sovereign	89-90	55-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	382.3	–0.3	381.5	381.5	–	1
Oct	382.4	–0.4	383.0	382.0	1,006	4,885
Dec	385.3	–0.4	388.3	385.0	15,649	104K
Feb	387.6	–0.5	388.5	387.3	829	13,814
Apr	389.9	–0.5	390.0	389.3	1,001	7,876
Jun	392.4	–0.5	393.0	392.5	1,196	11,514
Total					21,379	189,349

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	390.0	–	391.0	390.0	3,318	9,514
Jan	392.1	+0.1	393.0	392.0	2,067	12,759
Apr	394.8	+0.1	395.7	395.5	572	6,363
Jul	397.8	+0.1	–	–	4	626
Oct	401.3	+0.1	–	–	2	25
Total					5,961	29,287

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	119.45	+1.30	–	–	19	31
Dec	120.45	+1.30	120.75	119.75	1,527	7,714
Mar	121.45	+1.30	–	–	26	202
Jun	122.50	+1.30	–	–	1	111
Total					1,573	8,058

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	487.1	–1.1	488.5	485.0	84	88
Oct	487.5	–1.1	–	–	–	10
Dec	492.2	–1.3	496.0	491.0	9,366	69,168
Jan	494.8	–1.4	–	–	2	28
Mar	499.7	–1.4	502.5	498.5	1,362	11,151
May	504.6	–1.5	505.0	502.5	35	6,410
Total					10,925	96,308

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	24.07	–	24.28	23.74	38,455	86,307
Dec	23.55	+0.02	23.72	23.24	15,032	63,617
Jan	22.89	–0.03	23.07	22.66	7,247	42,229
Feb	22.27	–0.08	22.42	22.13	2,750	26,209
Mar	21.75	–0.12	21.93	21.63	3,010	18,370
Apr	21.32	–0.17	21.52	21.21	1,181	12,896
Total					78,046	301,923

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	22.86	–0.10	23.10	22.63	13,814	60,351
Dec	22.33	–0.06	22.51	22.15	8,892	39,567
Jan	21.74	–0.02	21.90	21.56	3,777	20,882
Feb	21.14	–0.01	21.27	21.03	4,591	12,300
Mar	20.55	+0.01	20.87	20.43	1,731	12,822
Apr	20.02	–0.04	20.17	19.96	635	4,471
Total					na	na

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	70.45	+0.76	70.60	69.10	12,878	22,774
Nov	70.05	+0.58	70.30	68.80	12,819	35,797
Dec	69.20	+0.33	69.50	68.25	6,319	31,726
Jan	67.65	+0.08	68.10	66.90	4,908	22,376
Feb	65.15	–0.37	65.90	64.75	1,549	11,331
Mar	62.30	–0.22	62.85	62.00	1,116	5,694
Total					42,695	149,778

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	225.00	+1.75	228.00	223.50	7,099	24,056
Nov	217.00	+2.00	218.75	215.50	4,225	15,629
Dec	210.50	+2.25	211.75	209.50	2,535	16,445
Jan	204.00	+2.25	205.25	203.25	750	12,221
Feb	198.75	+2.50	197.75	196.50	338	2,844
Mar	189.25	+2.50	–	–	–	3,728
Total					15,510	85,560

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	2.076	+0.021	2.110	2.040	18,759	27,735
Dec	2.290	+0.018	2.310	2.250	5,457	20,899
Jan	2.330	+0.018	2.340	2.300	3,604	16,599
Feb	2.270	+0.015	2.285	2.245	1,836	9,354
Mar	2.160	+0.015	2.170	2.145	668	7,531
Apr	2.040	+0.017	2.050	2.023	481	5,062
Total					30,110	134,826

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	62.30	–0.53	62.80	61.30	13,269	15,742
Nov	62.10	–0.50	62.58	61.30	10,063	20,785
Dec	61.80	–0.30	61.80	61.00	2,968	10,417
Jan	61.15	–0.65	61.60	61.10	1,807	7,914
Feb	61.10	–0.60	61.60	61.10	911	2,379
Mar	62.00	–0.20	62.00	61.55	486	1,385
Total					28,947	61,316

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	106.40	–0.40	107.15	106.25	155	1,875
Jan	108.15	–0.60	109.00	108.00	64	2,091
Mar	109.90	–0.75	110.90	109.90	46	1,291
May	111.75	–0.75	112.75	111.75	60	843
Jul	113.50	–1.00	114.25	114.25	3	135
Total					328	6,235

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	429.50	–	432.50	427.00	12,358	46,386
Mar	420.75	+0.25	424.50	418.25	2,517	13,379
May	407.50	+2.75	409.00	403.50	388	1,184
Jul	389.00	+1	392.00	387.00	934	5,599
Sep	393.50	+3	393.50	390.50	34	116
Dec	396.00	+1	–	–	–	88
Total					16,229	67,678

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	312.25	+1.75	312.50	309.75	37,854	190,134
Mar	319.00	+2	319.25	316.75	6,104	63,405
May	324.75	+1.75	325.25	323.00	4,329	26,891
Jul	326.50	+1.5	327.00	325.00	1,574	20,043
Sep	307.75	+1.25	308.50	307.50	126	2,586
Dec	299.25	+1.25	300.00	298.25	880	13,972
Total					50,871	317,281

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	103.90	+0.65	104.25	103.75	117	963
Jan	105.00	+0.50	105.50	104.75	66	701
Mar	106.40	+0.40	106.75	106.25	26	170
May	107.90	+0.40	–	–	–	80
Total					209	1,914

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	795.75	+4.5	797.00	790.00	39,077	118,388
Jan	802.00	+3.75	803.00	796.50	4,281	29,988
Mar	806.50	+3.25	808.00	801.25	2,778	15,674
May	806.00	+3	806.50	801.00	2,861	15,083
Jul	806.50	+3.25	807.00	801.00	2,113	12,206
Aug	795.50	+3	796.00	795.00	10	249
Total					51,487	197,117

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	24.91	–0.03	25.04	24.88	6,837	10,994
Dec	25.33	–	25.45	25.30	7,945	46,375
Jan	25.59	+0.01	25.66	25.57	1,522	8,052
Mar	25.94	+0.04	26.02	25.91	806	9,428
May	26.17	–0.01	26.27	26.15	604	6,464
Jul	26.42	+0.02	26.47	26.39	176	1,742
Total					18,277	84,148

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	263.2	+3.2	263.3	259.9	7,588	19,821
Dec	258.3	+2.4	258.5	255.6	9,181	43,304
Jan	256.4	+1.8	257.0	254.3	2,084	8,861
Mar	253.6	+1.9	254.3	251.8	997	11,188
May	250.3	+1.8	250.7	248.5	930	6,861
Jul	249.8	+1.5	249.8	248.0	310	3,107
Total					21,369	94,382

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	35.0	–0.5	–	–	–	–
Mar	75.0	–	–	–	–	–
Apr	88.0	–2.0	89.0	87.0	121	1,291
May	78.0	–	–	–	–	17
Jun	88.5	–	–	–	–	–
Total					121	1,308

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	995	–4	996	996	5	774
Oct	1122	+10	1130	1119	108	1,676
Nov	1193	+13	1200	1185	36	445
Jan	1230	+4	1241	1230	56	1,059
Apr	1240	+4	1251	1240	107	380
Jul	1096	+10	1105	1100	30	42
Total					342	4,447

	Close	Prev
BFI	992	995

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	966	+9	965	955	181	152
Dec	993	+8	995	981	1,611	35,630
Mar	1014	+8	1015	1004	765	40,080
May	1028	+9	1030	1018	117	21,089
Jul	1041	+7	1042	1040	42	11,230
Sep	1054	+6	1055	1049	106	3,798
Total					3,306	135,495

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1389	+23	1390	1366	1,667	31,568
Mar	1420	+20	1421	1401	510	17,324
May	1439	+19	1440	1424	50	8,080
Jul	1457	+17	1457	1442	37	6,101
Sep	1473	+16	1473	1463	7	5,511
Dec	1496	+16	–	–	–	876
Total					2,271	77,546

■ COCOA (ICCO) (SDR's/tonne)

Sep 24	Price	Prev. day
Daily	1020.92	1026.46

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1574	+5	1585	1570	106	796
Nov	1524	+20	1527	1515	1,868	15,133
Jan	1466	+26	1466	1448	936	6,457
Mar	1426	+24	1427	1411	275	3,858
May	1408	+24	1408	1393	101	1,231
Jul	1402	+22	–	–	–	231
Total					3,286	27,730

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	106.45	+0.45	107.25	106.00	5,252	14,473
Mar	103.20	+0.50	103.70	103.00	1,066	5,115
May	103.50	+0.90	103.50	103.00	107	2,071
Jul	103.10	+0.55	104.20	102.50	30	744
Sep	103.65	+1.10	–	–	2	217
Dec	104.65	+1.65	–	–	2	234
Total					6,468	22,614

■ COFFEE (ICO) (US cents/pound)

Sep 24		Prev. day
Comp. daily	95.15	93.94
15 day average	96.72	97.11

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	328.7	+1.1	329.1	326.0	522	10,533
Mar	325.8	–1.4	328.5	325.6	483	8,505
May	326.0	–1.6	328.0	326.0	57	3,836
Aug	327.9	–0.7	329.9	328.5	24	1,234
Oct	320.4	–0.8	322.7	321.0	11	857
Dec	322.9	–0.1	323.3	323.3	5	252
Total					1,102	25,407

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	11.21	+0.04	11.40	11.17	8,564	20,806
Mar	10.92	–0.12	11.14	10.91	23,526	70,984
May	10.89	–0.12	11.06	10.88	6,260	21,918
Jul	10.79	–0.06	10.91	10.78	1,269	14,903
Oct	10.72	–0.04	10.79	10.72	1,098	10,232
Mar	10.62	–0.04	10.70	10.68	362	1,867
Total					41,119	140,914

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	76.00	+0.28	75.30	75.50	710	1,027
Dec	77.21	–0.01	77.90	76.60	9,422	28,143
Mar	78.40	+0.17	78.81	77.65	867	9,152
May	79.16	+0.26	79.50	78.30	315	6,730
Jul	79.65	+0.15	79.90	79.65	198	4,750
Oct	78.92	+0.17	78.90	78.80	14	977
Total					11,626	55,695

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	108.10	+2.60	108.50	108.00	290	8,732
Jan	107.30	+2.00	107.30	106.10	159	6,145
Mar	109.10	+1.60	109.00	107.70	107	2,686
May	111.10	+1.65	110.25	110.25	30	664
Jul	113.10	+1.90	112.00	112.00	17	213
Sep	114.45	+1.95	–	–	–	234
Total					596	18,767

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	73.175	+0.450	73.200	72.650	6,608	27,349
Dec	67.500	–0.125	67.825	67.150	6,641	33,392
Feb	64.725	–	64.900	64.475	2,156	16,251
Apr	66.200	–	66.325	66.050	1,086	8,219
Jun	64.050	–0.050	64.175	63.950	469	3,735
Aug	63.950	–0.075	64.150	63.925	300	4,081
Total					17,288	98,468

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	57.175	–0.050	57.475	56.825	3,020	7,736
Dec	57.150	–	57.500	56.875	4,454	15,860
Feb	76.750	+0.150	76.900	76.450	753	4,951
Apr	73.350	–0.125	73.500	73.100	221	1,899
Jun	77.650	–0.050	77.675	77.500	97	2,057
Jul	75.050	–0.075	75.150	74.850	99	503
Total					8,751	33,499

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	78.500	+1.000	79.150	77.550	1,439	4,512
Mar	78.300	+1.000	79.000	77.725	131	832
May	80.200	+0.975	80.500	78.800	76	285
Jul	80.500	+1.025	80.500	79.300	10	119
Aug	78.550	+0.050	78.550	78.475	1	23
Total					1,656	5,771

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Nov	Feb	Nov	Feb
1350	56	102	18	30
1400	28	72	40	49
1450	12	48	73	74
■ COPPER (Grade A) LME	Nov	Feb	Nov	Feb
1850	112	149	40	81
1950	60	101	86	130
2050	27	65	153	192
■ COFFEE LIFFE	Nov	Jan	Nov	Jan
1500	61	75	36	109
1550	39	58	64	142
1600	24	44	100	178
■ COCOA LIFFE	Dec	Mar	Dec	Mar
975	48	71	30	32
1000	36	57	43	43
1025	26	45	58	56
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
2200	-	-	33	-
2250	-	112	56	-
2300	65	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$20.64-0.72	+0.005
Brent Blend (dated)	$23.00-3.02	+0.22
Brent Blend (Nov)	$22.95-2.97	+0.26
W.T.I.	$24.10-4.12	+0.37

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$210-212	+3
Gas Oil	$230-232	+1
Heavy Fuel Oil	$112-114	–1
Naphtha	$214-216	
Jet fuel	$238-240	
Diesel	$242-244	+1

■ NATURAL GAS (Pence/therm)

Bacton (Oct)	12.90-3.25	+0.025

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$382.65	+0.50
Silver (per troy oz)♣	491.50c	+3.00
Platinum (per troy oz.)	$388.25	+0.50
Palladium (per troy oz.)	$119.00	+2.00
Copper	95.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.82r	
Tin (New York)	280.50	
Cattle (live weight)	93.46p	–1.98*
Sheep (live weight)	113.01p	–4.92*
Pigs (live weight)†	109.16p	–0.14*
Lon. day sugar (raw)	$281.70	–2.20
Lon. day sugar (wte)	$335.00	–1.70
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Oct)♥	86.25p	–2.00
Rubber (Nov)♥	86.25p	–2.00
Rubber (KL RSS No1)	321.5v	
Coconut Oil (Phil)§	$742.5z	+2.5
Palm Oil (Malay.)§	$510.0x	
Copra (Phil)§	$470.0z	
Soyabeans (US)	228.0	
Cotton Outlook'A' Index	76.00	+0.30
Wooltops (64s Super)	420p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. z Oct. v Sep/Oct. x Sep. y London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,112 head of pigs sold.

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds

Prices from Kenkko Group: US$ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round); 1996 crop prices indicated between 3,500 and 4,000 CFR/FOT MEP for December onwards. US almonds (shelled), shipments started: 23/25 NPSSR 5,700 FAS California, shipment September-October. US walnuts: LHP 20%; up at 5,650; in-shell up at 2,350 – both FAS California, October shipment. Turkish hazelnuts, standard No 1, 3,400 FOB, unstable as major processor receiving money from the local government. Indian cashews raw: W-320, 5,500 FOB India, easy; down by 3% with new Brazilian crop. Israeli sunflower seed: stable at 2,000, availability tight.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Sep 25	Sep 24	month ago	year ago
1900.4	1895.0	1952.1	2104.2

■ CRB Futures (Base: 1967=100)

Sep 24	Sep 23	month ago	year ago
245.31	243.84	[illegible]	[illegible]

■ GSCI Spot (Base: 1970=100)

Sep 24	Sep 23	month ago	year ago
203.07	200.02	197.60	180.14

JOTTER PAD

CROSSWORD

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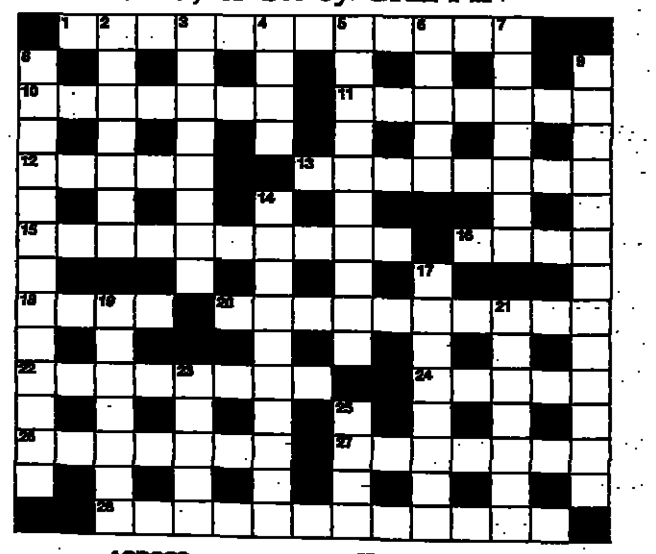


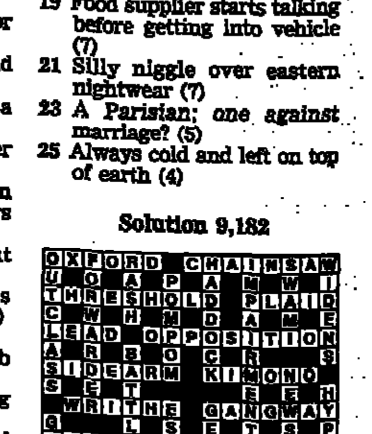
ACROSS

1 After shower violin player cooked tunny fish (7,6)
10 Cold American surrounded by many insects (7)
11 State home takes poor Ada in (7)
12 Pine certainly needed by the navy (5)
13 Get less to iron? (8)
15 Feeling Tom should be turned into a field (10)
16 An expression in Outer Mongolia (4)
18 Cut short and carry out or remove cork (4)
20 They replace and mend spar as bent (10)
22 Finished puncture after a fit of temper (8)
24 Man caught missing grocer running around (5)
26 Nobleman one sovereign wanted before the others (7)
27 Fool tells stories about girls (7)
28 Make for the drink as one's unhappy at home? (3,4,3,3)

DOWN

2 Praise for a cricket club fifty object to (7)
3 Head seeing nothing wrong in curiosity (8)
4 Pot to have top removed when put in kiln (4)
5 Attempts to lie around on top of things in bathroom (10)
6 Having no black margin, as a rule (5)
7 There's a drink on the bar, and a bun (7)
8 Drama difficult to obtain? Don't give in too easily! (4,4,2,3)
9 Teacher kept her behind to talk idly about me! (5,5)
14 Goes hitchhiking with the gang, a form of torture! (10)
17 Coffee especially to go with Roses Assortment (8)
19 Food supplier starts talking before getting into vehicle (7)
21 Silly niggle over eastern nightwear (7)
23 A Parisian; one against marriage? (5)
25 Always cold and left on top of earth (4)

Solution 9,182



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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
Jersey: 01534 71696

	Selling Price	+ or -	Yield Gr's
A$ Accum	A$16.064	+0.009	5.90
ASch Accum	Sch246.58	+0.04	2.00
C$ Accum	C$18.085	+0.004	3.10
DM Accum	DM30.272	+0.009	2.00
DFl Accum	Dfl51.026	+0.005	1.70
ECU Accum	Ecu13.468	+0.004	3.10
FFr Accum	FFr68.927	+0.014	2.50
HK$ Accum	HK$120.84	+0.04	4.30
Lira Accum	L29930	+14	7.70
NZ$ Accum	NZ$38.083	+0.027	8.90
NKr Accum	NKr112.28	+0.03	3.50
S$ Accum	S$25.962	+0.003	1.50
SPta Accum	Pta2725.4	+1.4	6.20
£ Accum	£13.069	+0.004	4.70
SKr Accum	SKr120.62	+0.04	3.80
SFr Accum	SFr28.381	+0.002	0.60
US$ Accum	$23.453	+0.009	4.40
Yen Accum	Y2050.2	—	0.10

Prices for dealing September 25

Jupiter Tyndall (Bermuda) Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port, 01481 722882

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Island Global Fd	0	1801.1	1902.2	+4.1	0.85
Island Gold	0	4517.1	4799.5	+38.8	0.00
(Accum. Units)	0	8613.3	9130.1	+51.4	0.00
Island UK Fd	0	1039	1101.3	+3.2	2.43
(Accum Units)	0	2502.4	2652.5	+7.6	2.43

Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey 01481 707000
Prudential Money Funds Ltd

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Managed Sterling		159.3	159.4	-0.3	3.99
Managed Dollar	5	314.45	14.46	+0.02	3.70
Dollar Deposit		$10.14	10.15	—	3.81

Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey 01481 7197420

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

Berkshire KITC Growth Fund Plc

	Selling Price	Buying Price	+ or -	Yield Gross
NAV Sep 13	$8.10		-1.01	-

Berkshire Korea Fund Plc

	Selling Price	Buying Price	+ or -	Yield Gross
NAV	$4.72		-0.66	-

Bordier Invest (Ireland) Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Invest Korea Fd NAV Sep 20	$37.04		—	-

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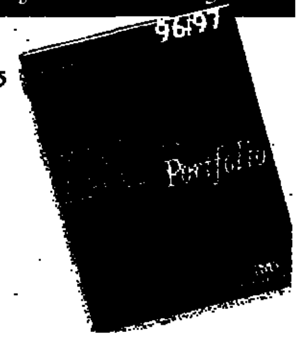

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	Selling Price	Buying Price	+ or -	Yield Gross
Japan Performance B	$9.7869		—	-
UK Performance	£10.5150		—	-
European Performance B	Ecu10.4416		—	-

CFP Interest Rate Arbitrage Fund Plc

	Selling Price	Buying Price	+ or -	Yield Gross
NAV	$10.49		—	0.00

Calpine Fund

	Selling Price	Buying Price	+ or -	Yield Gross
NAV	$108.01		+0.32	-

Capital Vision Fund Plc

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

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Worldinvest (Managers) Jersey Ltd

	Selling Price	Buying Price	+ or -	Yield Gross
Worldinvest Inc Fd †	$237.72	250.02	—	5.81
Excelle Global Emg Mkts	$8.91	9.37	-0.03	-
Excelle Global Eqty $ *	$76.27	79.87	—	-
Excelle Stg Global Fixed Inc *	£11.81	11.88	—	4.90

Valued weekly. * Mondays. † Wednesdays.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monet, L-2180 Luxembourg 352 424949320

	Selling Price	Buying Price	+ or -	Yield Gr's
Latin America Equity	$48.51	49.24	—	-
North America Equity	$77.41	77.80	—	-
Asian Tigers Equity	[illegible]	[illegible]	—	-
Europe Equity	[illegible]	70.05	—	-
Germany Equity	[illegible]	131.14	—	-
Japan Equity	$48.04	48.53	—	-
Europe Bond	[illegible]	[illegible]	—	-
US Bond	$57.78	57.92	—	-
Global Bond	[illegible]	58.97	—	-
Germany Bond B	[illegible]	107.80	—	-
Spain Bond	[illegible]	[illegible]	—	-
Eastern Europe Equity F	[illegible]	181.48	—	-
China Equity F	$54.11	54.79	—	-
Switzerland Equity	[illegible]	119.28	—	-

Fidelity Funds - Contd.

Country Select Funds

	Selling Price	+ or -	Yield Gr's
ASEAN	$21.20	-0.06	-
Asian Special Situations	$10.82	-0.03	-
Australia	A$15.78	+0.11	1.35
Emerging Markets	$8.481	+0.024	-
European Sm Cos F	DM13.08	+0.04	-
France	FFr83.19	+2.41	-
Germany	DM20.61	+0.10	-
Hong Kong	$48.22	-0.34	0.82
Iberia	Pta1783	+11	-
Indonesia	$10.19	+0.04	-
Italy	L14172	-60	-
Japan Smllr Cos	Y1079	-2	-
Korea F	$5.719	+0.113	-
Latin America	$8.883	+0.085	0.53
Malaysia	$34.15	-0.15	-
Nordic	SKr172.9	+0.8	-
Singapore	$24.91	-0.13	-
Switzerland	SFr174.58	+0.07	-
Thailand	$31.88	+0.32	-
United Kingdom	£7.129	+0.002	-

Bond Funds

	Selling Price	+ or -	Yield Gr's
European	Ecu10.95	—	5.81
International	$1.036	—	5.24
US Dollar	$3.508	—	6.74
Sterling	£0.250	-0.001	7.12
Yen	Y1044	—	2.52

Balanced

	Selling Price	+ or -	Yield Gr's
European Balanced	DM12.10	+0.04	1.92

Prices as at September 24

Mercury Asset Management S.A. - Contd.

	Selling Price	Buying Price	+ or -	Yield Gr's
Global Equity	[illegible]	70.61	+0.42	0.00
Emerging Markets	$11.65	12.27	-0.03	0.00
Gold & Mining	$10.99	11.58	+0.17	0.00
Australian & New Zealand	[illegible]	25.71	+0.29	0.00
Eastern European	[illegible]	39.43	-0.25	0.00
European	$39.11	41.18	+0.48	0.00
Japan	$21.34	22.48	+0.15	0.00
Latin American	$9.44	9.95	-0.01	0.00
North American	$41.92	44.14	-0.04	0.00
Pacific	$19.00	20.01	+0.11	0.00
Singapore & Malaysian	$29.04	30.57	+0.11	0.00
United Kingdom	[illegible]	40.88	+0.34	0.00
Asian Opps	$28.80	30.22	+0.09	0.00
European Opps	[illegible]	33.08	+0.23	0.00
Global Opps	$11.40	12.01	+0.02	0.00
Japan Opps	$18.28	19.28	+0.14	0.00
North American Opps	$45.14	47.52	-0.04	0.00
United Kingdom Opps	[illegible]	19.86	+0.07	0.00
DM Reserve	[illegible]	112.22	—	0.00
Dollar Reserve	[illegible]	104.97	+0.03	0.00
Sterling Reserve	[illegible]	115.70	+0.03	0.00
Swiss Franc Reserve	[illegible]	107.80	+0.03	0.00

Midland Intl Circuit Fund SICAV(u)

Midland Bank Fund Managers (Jersey) Ltd

PO Box 26, St Helier, Jersey 01534 606000

	Selling Price	Buying Price	+ or -	Yield Gr's
UK Growth	£1.441	1.517	-0.005	1.86
European Growth	[illegible]	1.804	+0.003	-
European Opps	[illegible]	4.255	-0.003	-
Japan Growth	[illegible]	0.945	+0.001	-
Japanese Opps	[illegible]	2.404	+0.008	-

Fleming Group (u)

6 Route De Treves L-2633 Senningerberg Luxembourg

Aetna International Umbrella Fund - Contd.

Alliance Capital

Abtrust Fund Mngrs Luxembourg SA (u)

4 Boulevard Royal L 2449 Luxembourg 00 352 227081

	Selling Price	+ or -	Yield Gr's
Global Cap Portfolio	$3.706	+0.012	-
United States Portfolio	$3.190	-0.004	-
Contl Europe Portfolio	[illegible]	+0.013	-
Japan Portfolio	[illegible]	-0.003	-
Pacific Portfolio	[illegible]	+0.012	-

LUXEMBOURG (REGULATED)(**)

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Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ⚘ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‖ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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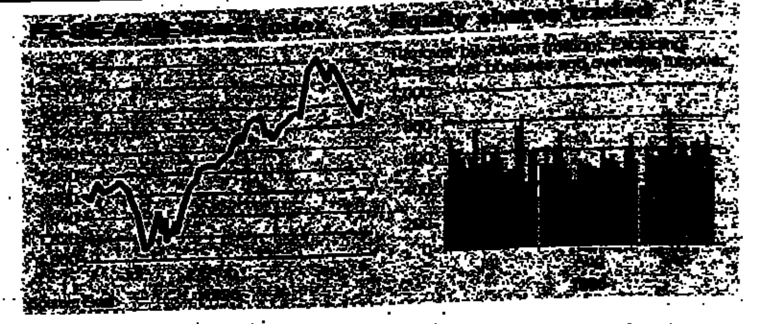
Relief at Fed rate decision boosts shares



MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's equity market reacted with surprise and considerable enthusiasm to the US Federal Reserve's refusal to nudge interest rates higher.

The news, announced after UK markets closed for business on Tuesday, saw the bears in London scramble to cover their short positions, driving share prices sharply higher.

There was further good news for equities from the outcome of the latest gilts auction. £3bn-worth of long dated stock, which was covered a comfortable 1.73 times.

That news saw gilts pick up after an uncertain start and eventually close with good gains on balance. Gilts were additionally supported by a strong showing by US Treasury bonds, where the yield on the 30-year bond remained below 7 per cent.

Far from testing the 3,900 level, as many market observers had been fearing, the FT-SE 100 index began the session in good form and accelerated throughout the day, peaking shortly after Wall Street opened and closing a net 25.2 higher at 3,935.7.

The second line stocks performed well but were left behind by the leaders, with the FT-SE Mid 250 finishing with a 14.9 gain at 4,403.1.

A further push for the market came with the revival of various takeover rumours, mostly in the financial sectors.

Marketmakers, relieved with the news on interest rates from Washington, adopted a much more bullish view of short term prospects for UK stocks.

"Instead of wringing their hands about rate rises choking off the emerging pick up in consumer spending, the big institutions are now talking about the large amounts of cash in the market. And the takeover stories look much more attractive too," said one dealer.

He said the odds favoured the FT-SE 100 taking another look at the 4,000 mark in the not-too-distant future "if Wall Street behaves itself".

The view among equity market strategists after the Fed meeting was generally one of surprise. "A 25 basis points rise would have cleared the air and not been too badly received either in the US or in Europe," said one strategist. He was slightly cautious about the response of European markets to the news; "the initial response to this sort of thing is not always the correct one," he added.

Another also pointed to the institutions' cash piles and said the appearance of any sizeable bids would see the market well on its way to 4,000.

But he was reluctant to get too enthusiastic about the FT-SE 100 pushing much beyond that level, citing the potential for increasing political uncertainties as the general election gets ever nearer. "This side of the election, 4,000 on the Footsie looks increasingly like a good selling opportunity".

Turnover was seen as disappointing given the scale of the gains in the market, with the 6pm reading showing 691.7m shares as having changed hands. Customer trading on Tuesday was worth £1.4bn.

Indices and ratios

FT-SE 100	3935.7	+25.2	FT Ordinary index	2816.6	+14.9
FT-SE Mid 250	4403.1	+14.9	FT-SE-A Non Fins p/e	18.08	18.00
FT-SE-A 350	1963.9	+11.3	FT-SE 100 Fut Dec	3966.0	+13.0
FT-SE-A All-Share	1940.13	+10.25	10 yr Gilt yield	7.73	7.60
FT-SE-A All-Share yield	3.79	3.81	Long gilt/equity yld ratio	2.14	2.13

Best performing sectors

1 Oil Exploration & Prod +1.4
2 Banks, Retail +1.3
3 Engineering +1.2
4 Transport +1.1
5 Extractive Industries +1.0

Worst performing sectors

1 Tobacco −1.0
2 Telecommunications −0.6
3 Leisure & Hotels −0.5
4 Chemicals −0.2
5 Distributors −0.2

Sizeable seller in Vodafone

By Joel Kibazo, Lisa Wood and Peter John

Turnover in mobile phones group Vodafone Group rose to 45m, making it the most heavily traded stock of the day, after BZW carried out several trades involving around 20m shares each side of the trade.

BZW declined to give details of the deal but was said to have taken a 3p a share turn on the transaction after passing the stock on at 218p a share.

There was little indication of the seller of the stock though several market participants suggested it was likely to be a US holder, possibly the fund management group Fidelity. Shares in Vodafone eased 3 to 219p.

In the rest of the sector, BT declined 5 to 362½p in trade of 12m as talk of corporate activity at the group did the rounds of the market late yesterday. There was a suggestion in some quarters that the company would announce a US deal today.

Kwik Save was the biggest loser on the FT-SE 250, falling 25 to 341½p following a "sell" note from Mr Paul Smiddy of Credit Lyonnais Laing ahead of the supermarket's strategic review.

The second tier food retailer has been criticised for some months by analysts, with its price steadily falling for over a year.

Mr Smiddy said that investors who had bought into Kwik Save all the way down needed to do some hard thinking to anticipate how the company would be reshaped, and the attractiveness of the company's strategic review.

The company, he said, had either to return to its low cost roots or choose to become more of a neighbourhood supermarket. He said: "We believe it has decided on the latter route. This will mean softer competition for many companies." He added that, either way, a number of stores would have to close. He reduced his current year forecast by £5m and by £6m for 1997.

J Sainsbury continued its recovery, adding 6 to 380½p, after having been the main casualty of fears over a price war. Safeway added 4½ to 335½p.

Royal Bank of Scotland nudged towards the top of the list of Footsie risers as a period of strong underperformance gave an opportunity to revisit old takeover speculation. The shares had lagged the FT-SE-A All Share Index by 27 percentage points since the start of the year and the banking sector by 31 points.

That slide, principally as a result of concerns about the bank's Direct Line insurance subsidiary, has prompted some analysts and marketmakers to reconsider the bank's vulnerability to a takeover.

Royal Bank has always said it would not countenance the loss of its independence but one banking specialist commented: "It is one thing to argue against a takeover when the shares are at 580p but quite another when they are a pound lower."

The main perceived aggressor has traditionally been HSBC and that was the name being whispered again yesterday. Both banks were also helped by relief over steady US interest rates. RBoS jumped 12½ to 484p and HSBC was up 19 to 1205p.

News that National Westminster's innovative $5bn securitisation deal will free some £250m of capital gave added impetus to belief that it will make another distribution of cash to shareholders.

Also, NatWest was apparently steering brokers away from the view that it is considering an offer for Legal & General, the life assurance group. The shares ended 14½ higher at 678p.

Transport and property group P&O was one of the day's winners following the publication of an aggressive buy note from one of its joint brokers.

The shares gained more than 3 per cent as they jumped 18 to 585p, making them the best performing stock in the FT-SE 100.

Panmure Gordon suggest the recently proposed joint venture with Dutch group Nedlloyd will give a strong boost to the group. Panmure said: "As containers have been the focus of the City concern on the group's low returns, this deal represents a double whammy boost to both earnings and sentiment."

The broker suggests the stock should be on a market rating for 1997 and has set a target share price of 676p.

The same broker also published a bullish note on British Aerospace. Shares in the group responded by moving 13½ ahead to 1051p. Panmure said: "Our mid-valuation, whilst still being conservative, values the business at 1155p and our best case valuation at 1285p. It is however equally reassuring that the current price is underpinned by our low valuation of 1025p."

A hefty evaluation of European oil stocks by Flemings Research gave a lift to Enterprise, the exploration and production group.

Flemings has examined 22 companies using 10 different valuation methods including earnings per share growth, interest cover and payout ratios. On its criteria, it ranks Enterprise well above the majors Shell Transport and BP and argues for a share price target of 600p. The shares improved 12 to 531p, while Shell added 10½ to 980½p on heavy turnover of 15m shares and BP 4 to 639½p.

Marks & Spencer hardened 5½ to 501½p following an upgrade by UBS, which raised this year's forecast by 3 per cent to £1,160m and by 4 per cent next year to £1,300m.

UBS, which reiterated its "buy" stance, said there was stronger trading generally in the clothing sector and that there had been a good start to the autumn season.

A "buy" note on Next was also reiterated by UBS which went from "hold" following recent interim results. Next added 13½ to 564½p.

Great Universal Stores climbed 10½ to 635½p following a "buy" note from ABN-Amro Hoare Govett after a "sum of the parts valuation" which put a price of between 750p and 770p on the stock.

Granada fell 12 to 858½p, following what had been described as a reasonably successful pre-close season meeting between them and the company earlier this week. Analysts had expressed some concerns, including the pace of disposal of the group's Exclusive hotel chain.

Guinness fell 4 to 454½p ahead of today's results. Nikko issued a "hold" recommendation.

Surrey Free Inns, an AIM stock, climbed 14 to 324p with speculation that the pub company, in which Regent Inns has a stake, could be a potential takeover target. Regent Inns added 5½ to 243p.

FINANCIAL TIMES EQUITY INDICES

	Sep 25	Sep 24	Sep 23	Sep 20	Sep 19	Yr ago	*High	*Low
Ordinary Share	2816.6	2801.7	2807.0	2840.9	2846.5	2587.5	2885.2	2666.8
Ord. div. yield	4.03	3.99	4.05	4.00	3.99	4.14	4.22	3.76
P/E ratio net	17.11	17.29	17.04	17.25	17.26	15.55	17.29	15.80
P/E ratio nil	16.95	17.13	16.88	17.09	17.12	15.36	17.13	15.71

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2805.9	2810.6	2810.6	2811.3	2814.1	2814.6	2819.0	2818.1	2812.8	2820.9	2805.9

	Sep 25	Sep 24	Sep 23	Sep 20	Sep 19	Yr ago
SEAQ bargains	34,361	36,343	39,874	40,393	39,716	26,536
Equity turnover (£m)†	-	1402.4	1457.3	2202.6	1708.7	3030.5
Equity bargains†	-	35,966	40,711	41,217	39,732	30,446
Shares traded (mil)†	-	472.6	527.3	680.4	588.6	730.4

†Excluding intra-market business and overseas turnover.

	Sep 25	Sep 24	Sep 23	Sep 20	Sep 19	Yr ago	*High	*Low
FT-SE AIM	1026.20	1032.50	1039.50	1047.90	1041.60	-	1146.40	965.70

*For 1996.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	596	Total Highs	73	Total contracts	32,822
Total Falls	575	Total Lows	75	Calls	12,942
Same	1,470			Puts	19,880

Sep 25 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3958.0	3973.0	+28.0	3980.0	3953.0	12360	57676
Mar	-	3985.0	+28.0	-	-	0	360
Jun	3990.0	3995.5	+15.5	3995.5	3990.0	320	0

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	4435.0	+13.0	-	-	0	3571

FT-SE 100 INDEX OPTION (LIFFE) (*3935) £10 per full index point

[illegible]

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. $ Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Sep 25	% chg on day	Sep 24	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (29)	1998.29	+1.5	1981.10	1884.25	1.61	-	2624.69	1722.94
Regional Indices								
Africa (13)	2540.95	+0.1	2539.18	2768.59	3.15	35.78	3933.86	2272.74
Australasia (6)	2031.06	+0.7	2016.43	2436.73	2.75	19.92	2927.34	2015.43
North America (11)	1759.36	+2.2	1722.11	1711.35	0.75	58.04	2188.39	1488.94

Copyright, The Financial Times Limited 1996. Figures in brackets show number of companies. Basis: US Dollars. Base Values: 1000.00 31/12/92. † Partial. Market closed 24/9: South Africa. Latest prices were unavailable for this edition.

FT-SE Actuaries Share Indices — The UK Series

	Sep 25	Day's chge%	Sep 24	Sep 23	Sep 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3935.7	+0.6	3910.5	3918.7	3984.1	3485.0	3.95	2.05	15.45	143.84	1834.84
FT-SE Mid 250	4403.1	+0.3	4388.2	4394.8	4428.2	3909.9	3.43	1.53	23.75	143.84	1798.26
FT-SE Mid 250 ex Inv Trusts	4436.7	+0.3	4422.2	4429.0	4462.8	3927.5	3.53	1.56	22.71	151.13	1808.68
FT-SE-A 350	1963.9	+0.6	1952.6	1958.8	1977.4	1740.4	3.64	1.95	16.70	70.74	1868.14
FT-SE-A 350 Higher Yield	1879.8	+0.6	1868.2	1872.4	1893.5	1722.2	5.10	1.83	13.38	91.86	1343.67
FT-SE-A 350 Lower Yield	2055.1	+0.5	2045.0	2048.3	2068.3	1765.7	2.70	2.14	21.61	50.15	1434.37
FT-SE SmallCap	2174.65	....	2175.42	2180.03	2186.47	1971.32	3.11	1.59	25.22	63.60	1802.43
FT-SE SmallCap ex Inv Trusts	2170.78	-0.1	2172.47	2177.05	2185.08	1954.00	3.32	1.57	22.83	50.46	1811.56
FT-SE-A ALL-SHARE	1940.13	+0.5	1929.88	1934.02	1953.44	1722.00	3.79	1.93	17.14	68.19	1670.88

FT-SE Actuaries All-Share

	Sep 25	Day's chge%	Sep 24	Sep 23	Sep 20	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3742.90	+0.9	3709.24	3702.29	3786.30	2817.89	3.72	1.63	20.70	125.00	1632.79
12 Extractive Industries(6)	4126.71	+1.0	4086.26	4091.88	4162.72	4171.05	3.93	2.66	11.94	161.80	1229.54
15 Oil, Integrated(3)	3857.62	+0.8	3825.46	3817.31	3893.45	2885.51	3.87	1.45	22.27	133.46	1727.97
16 Oil Exploration & Prod(15)	2781.05	+1.4	2741.87	2726.59	2726.68	1984.50	1.60	1.67	39.33	37.20	1575.35
20 GEN INDUSTRIALS(276)	2067.57	+0.4	2076.87	2081.61	2104.17	1977.42	4.01	1.74	17.85	68.51	1158.54
21 Building & Construction(35)	1195.43	+0.2	1193.04	1195.85	1200.06	914.77	3.46	1.61	22.49	29.15	1009.84
22 Building Matls & Merchs(29)	1959.92	+0.5	1948.43	1955.01	1970.54	1725.33	3.93	1.59	20.20	56.23	1001.65
23 Chemicals(25)	2487.77	-0.2	2492.45	2494.51	2510.29	2418.54	4.07	1.52	20.14	80.07	1198.30
24 Diversified Industrials(18)	1563.88	+0.2	1561.42	1567.52	1610.04	1782.44	5.89	1.62	13.12	86.90	900.14
25 Electronic & Elect Equip(37)	2408.09	....	2407.56	2410.48	2423.39	2127.77	3.27	1.46	26.20	59.62	1267.53
26 Engineering(71)	2610.89	+1.2	2580.94	2581.22	2600.61	2182.17	3.12	2.44	16.39	62.51	1603.35
27 Engineering, Vehicles(14)	3163.79	+0.3	3154.28	3142.86	3180.56	2632.33	3.41	1.71	21.46	96.48	1686.52
28 Paper, Pckg & Printing(26)	2651.15	+0.2	2645.75	2639.50	2656.86	2932.24	3.92	1.83	17.48	83.35	1121.66
29 Textiles & Apparel(19)	1207.44	+0.6	1200.62	1206.53	1217.73	1602.34	5.91	1.18	17.85	47.35	748.45
30 CONSUMER GOODS(82)	3695.08	+0.4	3680.21	3685.48	3725.13	3345.81	3.83	1.94	16.87	122.97	1388.41
32 Alcoholic Beverages(6)	2778.48	+0.2	2772.21	2783.08	2812.44	2910.93	4.54	1.62	17.00	91.88	1016.90
33 Food Producers(25)	2595.16	+0.1	2591.52	2594.48	2610.43	2481.27	4.05	1.86	16.55	82.49	1189.21
34 Household Goods(15)	2684.41	+0.5	2672.08	2677.07	2692.06	2596.61	3.79	2.25	14.65	63.32	1032.82
36 Health Care(20)	2059.13	+0.8	2042.60	2043.36	2052.41	1971.61	2.68	1.96	23.85	38.89	1260.30
37 Pharmaceuticals(13)	5610.65	+0.8	5565.91	5589.32	5630.84	4380.30	3.01	2.06	20.16	162.93	1985.57
38 Tobacco(1)	3778.01	-1.0	3816.13	3866.96	3917.78	4413.33	6.94	2.06	8.77	262.07	972.90
40 SERVICES(255)	2573.17	+0.4	2562.66	2567.26	2593.63	2167.98	2.88	1.97	22.05	67.85	1356.49
41 Distributors(31)	2840.74	-0.2	2845.56	2863.70	2905.73	2728.49	3.03	1.99	20.73	63.15	1057.57
42 Leisure & Hotels(25)	3153.76	-0.5	3169.24	3205.73	3237.72	2494.37	2.76	2.03	22.25	171.72	1714.33
43 Media(45)	4364.30	+0.2	4355.77	4342.66	4383.22	3331.61	2.09	2.04	29.30	85.96	1595.26
44 Retailers, Food(15)	1959.91	+0.9	1942.64	1923.07	1926.66	2126.29	4.00	2.37	13.20	83.24	1267.06
45 Retailers, General(45)	2130.05	+0.6	2117.65	2136.38	2165.29	1786.71	3.01	2.08	19.99	52.88	1232.13
47 Breweries, Pubs & Rest.(23)	3111.85	+0.8	3087.29	3091.24	3119.94	2591.09	3.28	1.98	19.26	67.77	1509.66
48 Support Services(49)	2559.98	-0.2	2566.07	2566.16	2579.56	1842.46	1.91	2.30	28.36	36.48	1637.96
49 Transport(22)	2519.90	+1.1	2493.18	2495.96	2537.58	2172.96	3.76	1.09	30.46	81.06	1070.20
60 UTILITIES(33)	2303.02	....	2302.44	2305.74	2319.60	2515.90	6.49	1.60	12.66	158.45	1025.43
62 Electricity(12)	2365.77	+0.6	2350.98	2357.53	2374.75	2698.41	8.44	2.40	8.09	429.17	1281.05
64 Gas Distribution(2)	1368.71	+0.8	1357.52	1347.30	1358.66	1745.14	8.75	0.83	17.13	66.67	717.90
66 Telecommunications(8)	1951.13	-0.6	1963.71	1965.78	1975.39	2133.22	4.13	1.53	19.76	50.32	906.26
68 Water(11)	2202.47	+0.8	2185.66	2200.51	2216.07	2028.11	6.25	2.31	8.64	94.85	1245.84
69 NON-FINANCIALS(670)	2041.26	+0.4	2032.70	2036.06	2057.06	1840.94	3.77	1.83	18.06	72.49	1578.03
70 FINANCIALS(105)	3176.38	+1.1	3143.34	3157.69	3167.26	2696.95	4.17	2.38	12.60	117.11	1395.77
71 Banks, Retail(8)	4543.30	+1.3	4486.23	4529.53	4583.97	3567.22	3.99	2.71	11.57	174.00	1518.21
72 Banks, Merchant(6)	3718.06	+0.2	3712.46	3718.12	3757.70	3653.76	2.80	2.85	15.63	81.39	1192.29
73 Insurance(22)	1482.86	+1.0	1468.88	1469.05	1477.02	1322.88	5.65	2.30	9.61	60.41	1133.73
74 Life Assurance(8)	3653.91	+0.9	3621.01	3567.48	3587.66	2946.59	4.25	1.94	15.16	146.21	1551.46
77 Other Financial(20)	2644.60	....	2644.21	2648.62	2652.99	2263.55	4.04	1.77	17.52	88.02	1532.38
79 Property(41)	1652.67	+0.8	1639.48	1642.25	1652.42	1453.55	3.88	1.26	25.63	45.28	1032.42
80 INVESTMENT TRUSTS(127)	3189.38	+0.4	3177.00	3180.51	3203.05	2943.93	2.23	1.11	50.20	56.31	1129.58
89 FT-SE-A ALL-SHARE(902)	1940.13	+0.5	1929.88	1934.02	1953.44	1722.00	3.79	1.93	17.14	68.19	1670.88
FT-SE-A Fledgling	1241.47	....	1241.51	1243.10	1249.92	1074.65	2.80	0.58	77.65	26.89	1311.36
FT-SE-A Fledgling ex Inv Trusts	1254.86	....	1255.17	1256.85	1264.40	1070.46	3.00	0.48	80.00†	29.48	1327.10

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3917.7	3921.5	3922.5	3925.6	3928.2	3928.7	3935.5	3936.2	3934.8	3938.8	3917.7
FT-SE Mid 250	4388.2	4391.4	4394.9	4395.0	4398.1	4399.2	4399.6	4401.8	4402.7	4403.5	4388.2
FT-SE-A 350	1955.4	1957.2	1957.9	1959.1	1960.4	1960.8	1963.5	1963.9	1963.5	1965.0	1955.4

Time of FT-SE 100 Day's high: 2:49 PM Day's low: 8:30 AM. FT-SE 100 1996 High: 3977.2 (16/09/96) Low: 3632.3 (16/07/96).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1169.7	1169.5	1164.7	1165.6	1165.8	1165.9	1166.9	1167.8	1168.1	1168.4	1167.2	+1.2
Pharmaceuticls	5491.3	5498.3	5503.0	5516.0	5515.3	5523.3	5538.3	5542.5	5537.3	5541.1	5496.6	+44.5
Water	2170.8	2171.9	2177.6	2181.0	2183.2	2183.6	2184.4	2187.5	2185.6	2188.9	2171.8	+17.1
Banks, Retail	4579.6	4578.4	4562.4	4572.5	4579.8	4585.1	4597.2	4602.4	4597.4	4601.3	4543.5	+57.8

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

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TRADING VOLUME

Major Stocks Yesterday

[illegible]

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 25 / Sch)

BELGIUM/LUXEMBOURG (Sep 25 / Frs.)

CZECH REP (Sep 25 / Koruna)

DENMARK (Sep 25 / Kr)

FINLAND (Sep 25 / Mks)

FRANCE (Sep 25 / Frs.)

GERMANY (Sep 25 / Dm.)

GREECE (Sep 25 / Drachma)

ITALY (Sep 25 / Lire)

NETHERLANDS (Sep 25 / Fls.)

NORWAY (Sep 25 / Kroner)

POLAND (Sep 25 / Zloty)

PORTUGAL (Sep 25 / Escudo)

SPAIN (Sep 25 / Pts.)

SWEDEN (Sep 25 / Kronor)

SWITZERLAND (Sep 25 / Frs.)

TURKEY (Sep 25 / Tk.Lira)

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PACIFIC

JAPAN (Sep 25 / Yen)

AUSTRALIA (Sep 25 / AustS)

HONG KONG (Sep 25 / H.K.$)

INDONESIA (Sep 25 / Rupiah)

MALAYSIA (Sep 25 / MYR)

NEW ZEALAND (Sep 25 / NZ $)

SINGAPORE (Sep 25 / S$)

SOUTH KOREA (Sep 25 / Won)

TAIWAN (Sep 25 / TW $)

THAILAND (Sep 25 / Baht)

NORTH AMERICA

CANADA

MONTREAL (Sep 25 / Can $) 3:30 pm

TORONTO (Sep 25 / Can $) 3:30 pm

AFRICA

SOUTH AFRICA (Sep 25 / Rand)

INDICES

	Sep 25	Sep 24	Sep 23	1996 High	1996 Low
Argentina					
General(29/12/77)	(a)	16713.98	16720.35	18881.85 20/5	15297.25 22/8
Australia					
All Ordinaries(1/1/80)	2252.8	2229.7	2219.2	2326.00 26/4	2098.10 17/7
All Mining(1/1/80)	936.2	923.2	923.1	1118.40 8/5	923.10 23/9
Austria					
Credit Aktien(30/12/84)	357.41	353.9	356.3	394.99 31/5	348.19 6/9
Traded Index(2/1/91)	1040.68	1022.18	1036.01	1142.81 28/5	975.27 2/1
Belgium					
BEL20(1/1/91)	1764.43	1750.46	1750.64	1773.28 28/5	1574.90 2/1
Brazil					
Bovespa(29/12/83)	(a)	65570.0	65517.0	66822.00 12/7	43901.00 2/1
Canada					
Metals Minls ♦(1975)	(a)	5047.30	5081.75	5834.60 8/5	4887.47 16/1
Composite ♦(1975)	(a)	5299.70	5284.30	5299.70 24/9	4738.70 15/1
Portfolio §§(4/1/83)	(a)	2612.46	2603.40†	2612.46 24/9	2327.30 13/1
Chile					
IGPA Gen ♥(31/12/80)	(a)	5473.22	5454.28	5804.33 8/1	5215.28 8/4
Denmark					
CopenhagenSE(3/1/83)	428.46	423.55	429.83	431.84 20/9	368.40 2/1
Finland					
HEX General(28/12/90)	2147.36	2129.31	2127.21	2158.83 17/9	1851.67 10/1
France					
SBF 250(31/12/90)	1419.41	1406.77	1397.81	1457.88 6/6	1280.18 2/1
CAC 40(31/12/87)	2103.41	2081.50	2067.09	2146.79 30/4	1887.85 11/1
Germany					
FAZ Aktien(31/12/58)	927.28	921.14	918.50	927.28 25/9	818.56 2/1
Commerzbank(1/12/53)	2703.50	2686.80	2679.00	2703.50 25/9	2376.10 2/1
DAX‡(30/12/87)	2656.97	2638.45	2627.04	2658.97 25/9	2284.88 2/1
Greece					
Athens SE(31/12/80)	970.77	962.86	958.41	1017.98 4/3	872.89 7/8
Hong Kong					
Hang Seng(31/7/64)	11603.53	11546.70	11622.13	11622.13 23/9	10204.87 2/1
India					
BSE Sens.(1979)	3343.92	3337.73†	3331.09	4069.28 18/6	2828.08 25/1
Indonesia					
Jakarta Comp.(10/8/82)	572.28	569.78	570.16	638.21 24/4	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2606.55	2593.59	2580.37	2606.55 25/9	2234.81 2/1
Italy					
Banca Comm Ital(1972)	608.10	600.15	(c)	674.10 30/5	572.21 27/3
MIB General(2/1/95)	1032.0	1017.0	(c)	1142.00 20/5	970.00 27/3
Japan					
Nikkei 225(16/5/49)	21350.67	21171.99	(c)	22666.80 26/6	19734.70 13/3
Nikkei 300(1/10/82)	299.99	297.04	(c)	319.70 26/6	284.48 11/3
Topix(4/1/68)	1602.37	1589.48	(c)	1722.13 26/6	1524.12 13/3
2nd Section(4/1/68)	2091.42	2091.63	(c)	2251.48 2/7	1982.78 14/3
Malaysia					
KLSE Comp.(4/4/86)	1129.31	1123.72	1126.51	1188.54 30/4	983.18 2/1
Mexico					
IPC(Nov 1978)	(a)	3293.59	3300.44	3433.75 27/8	2739.36 8/3
Netherland					
CBS TtlRtnGen(End 83)	659.9	653.3	650.7	659.99 25/9	538.50 2/1
CBS All Shr(End 83)	387.7	383.8	382.3	387.70 25/9	328.70 2/1
New Zealand					
Cap. 40(1/7/86)	2244.10	2248.19	2233.79	2248.19 24/9	2025.14 7/6
Norway					
Oslo SE Ind(2/1/83)	1412.01	1407.68	1407.98	1468.71 12/6	1288.88 30/1
Philippines					
Manila Comp(2/1/85)	3236.04	3236.48	3244.54	3374.40 5/7	2678.97 2/1
Portugal					
BVL 30(4/1/93)	1992.81	1991.25	1991.18	2008.78 10/9	1802.81 2/1
Singapore					
SES All-S'pore(2/4/75)	525.75	524.19	524.08	618.37 5/2	522.15 30/7
South Africa					
JSE Gold(28/9/78)	1751.0♥	(c)	1721.6	2630.40 29/5	1348.48 2/1
JSE Ind.(28/9/78)	8204.0♥	(c)	8170.9	8738.20 25/1	7835.60 30/8
South Korea					
KoreaCompEx**(4/1/80)	793.21	777.91	769.20	986.84 7/5	783.35 28/8
Spain					
Madrid SE(30/12/85)	365.04	361.78	358.89	376.25 1/7	323.75 11/1
Sweden					
AffarsvardsGen(1/2/37)	2070.3	2066.6	2043.0	2082.20 13/9	1706.80 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1759.23	1741.22	1731.02	1811.88 11/7	1536.19 17/1
SBC General(1/4/87)	1246.08	1235.41	1227.33	1294.86 11/7	1114.47 26/1
Taiwan					
WeightedPr.**(30/6/66)	6438.52	6477.85	6453.98	6580.47 29/6	4898.22 6/2
Thailand					
Bangkok SET(30/4/75)	1034.94	1042.21	1034.37	1415.04 8/2	982.83 10/9
Turkey					
Istanbul Comp.(Jan 1986)	72051.2	70846.7	69186.7	73631.30 8/7	38779.30 2/1
WORLD					
MS Capital Intl(1/1/70)	783.6*	780.3	780.1	783.80 25/9	726.90 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1711.38	1698.30	1698.50	1711.38 25/9	1504.48 11/1
Euro Top-100(26/6/90)	1451.89	1443.45	1436.97	1459.28 26/4	1333.01 11/1
HSBC JC Drgn(31/12/88)	(u)	379.37	380.91	393.18 16/4	344.19 2/1
MC Bmgs Emrg(7/1/93)	161.20	160.88	160.87	165.91 4/7	147.36 2/1

US INDICES

Dow Jones	Sep 24	Sep 23	Sep 20	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5874.03	5894.74	5888.46	5894.74 (23/9)	5032.94 (10/1)	5894.74 (23/9/96)	41.22 (8/7/32)
Home Bonds	101.68	101.95	102.02	108.08 (14/2)	100.99 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2071.88	2085.59	2100.71	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	13.23 (8/7/32)
Utilities	218.40	219.26	219.46	234.80 (12/2)	204.86 (30/7)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 5932.08 (5913.24) Low 5831.86 (5820.39) (Theoretical♦)
Day's high 5929.52 (5898.22) Low 5852.95 (5835.19) (Actual♦)

Standard and Poors	Sep 24	Sep 23	Sep 20	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	685.61	686.48	687.03	687.03 (20/9)	598.48 (10/1)	687.03 (20/9/96)	4.40 (1/6/32)
Industrials♥	812.02	813.23	814.67	814.67 (20/9)	702.07 (15/1)	814.67 (20/9/96)	3.52 (30/6/32)
Financial	71.40	71.40	71.04	71.94 (16/9)	58.67 (10/1)	71.94 (16/9/96)	7.13 (4/9/74)
NYSE Comp.	365.23	365.51	365.77	365.77 (20/9)	321.41 (10/1)	365.77 (20/9/96)	4.64 (25/4/42)
Amex Mkt Val	563.40	563.62	565.20	614.99 (22/5)	525.80 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1215.27	1211.47	1219.69	1249.14 (6/6)	988.57 (15/1)	1249.14 (6/6/96)	54.87 (3/10/74)

■ RATIOS

	Sep 20	Sep 13	Sep 6	Year ago
Dow Jones Ind. Div. Yield	2.16	2.17	2.24	2.42
	Sep 18	Sep 11	Sep 4	Year ago
S & P Ind. Div. yield	1.98	2.02	2.06	2.06
S & P Ind. P/E ratio	22.41	21.84	21.80	18.14

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
AT & T	18,837,200	51¼	-3¼
Micron Tch	15,714,700	31¾	+3¾
Texas Inst	6,169,700	57⅝	+5⅜
Bay Ntwk	5,451,200	29½	+⅛
LSI Logic	4,743,000	24⅛	+1¾
Pepsico	4,288,000	30	+¼
Ford Motor	3,785,800	31¼	-⅛
IBM	3,738,580	124⅝	-⅛
Federal Nt	3,653,100	34½	+⅛
Gen Motors	3,104,300	48⅝	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Sep 24	Sep 23	Sep 20
New York SE	457.894	297.787	499.578
Amex	20.396	12.784	27.682
NASDAQ	595.075	375.889	608.168
NYSE			
Issues Traded	3,209	3,190	3,197
Rises	1,208	865	1,435
Falls	1,077	1,428	902
Unchanged	924	897	860
New Highs	113	62	103
New Lows	22	24	21

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Sep	2089.0	2105.0	+19.0	2111.0	2088.0	28,641	21,073
Oct	2096.0	2110.0	+19.0	2115.0	2094.0	9,365	10,095
■ DAX							
Mar	2682.5	2696.5	+18.0	2700.5	2692.0	560	-
Dec	2660.0	2678.5	+17.5	2684.5	2653.5	21,934	-
■ OMX							
Sep	1600.00	1595.50	-1.50	1605.00	1588.50	6,507	14,655
Oct	1606.75	1603.50	-8.50	1611.25	1596.25	4,368	14,276
■ SOFFEX							
Sep	3736.5	4425.0	+740.0	3737.0	3679.0	500	1,307
Oct	3741.0	3698.0	-39.7	3741.0	3689.0	3,352	9,641

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Dec	691.90	693.60	+1.55	695.00	690.85	74,165	178,104
Mar	-	700.30	+1.90	-	-	298	4,013

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Dec	21250.0	21370.0	+210.0	21380.0	21210.0	31,066	197,050
Mar	21260.0	21270.0	+10.0	21330.0	21260.0	221	9,589

Open interest figures for previous day.

** Sat Sep 21: Taiwan Weighted Price 6490.08; Korea Comp Ex 769.37. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Sep 25 - 2663.10 +19.66

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, September 25, 1996

	Stocks Traded	Closing Prices	Change on day
NEC	12.2m	1,290	+60
Sumitomo Seika	9.4m	950	+37
Fujitsu	7.4m	1,030	+31
Toyo Umpanki	6.5m	628	-17
Toshiba Corp	5.8m	741	+38
Hitachi	5.6m	1,060	+30
Fuji Heavy Inds	5.5m	523	-7
Toho Zinc	5.3m	684	+21
Miyakoshi	5.3m	769	+69
TYK	4.0m	1,500	-240

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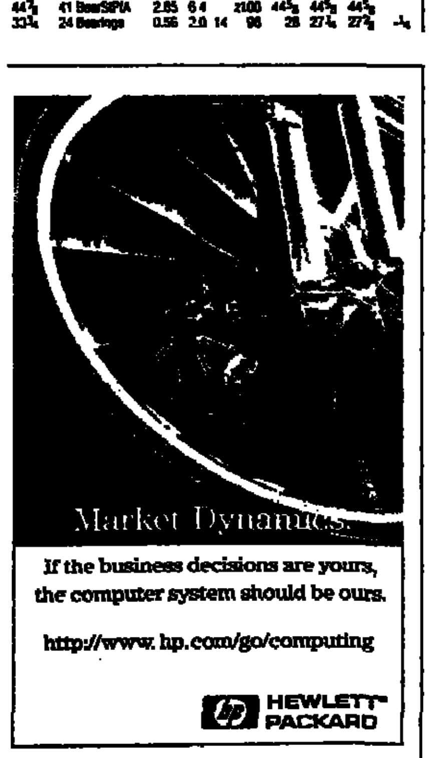
4 pm close September 25

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
23 7/8	17 3/4	AAR	0.48	2.1	20	328	22 7/8	22 5/8	22 3/4	-1/4
40 1/8	30 1/2	AMP	1.00	2.6	18	4486	39 1/4	38 1/2	39	+1/4
87 1/2	66	AMR			16	3316	82 1/4	81 1/4	81 3/4	+7/8
50 1/2	37 3/8	ASA	2.00	5.1	25	202	39 1/4	38 3/4	39	-1/4
48 3/4	38 1/8	AbbtL	0.96	2.0	21	9103	u48 3/4	48 1/8	48 3/8	+3/8
17 1/4	12 1/4	Abitibi Pr	0.40	3.1	6	1481	13 1/8	12 3/4	12 3/4	-3/8
20 1/4	13 1/2	ABM Ind	0.35	2.1	17	150	16 7/8	16 3/8	16 7/8	+5/8
18 5/8	13 7/8	Acptncale			38	223	u18 5/8	18 1/4	18 1/2	
50 3/8	37 3/4	ACE Ltd	0.56	1.2	11	6088	47 7/8	47 3/8	47 7/8	+3/8
10 1/8	9 1/8	ACM Gvt In	0.46	4.6	8	1000	10	9 7/8	10	+1/8
7 7/8	6 5/8	ACM GvOpp	0.57	8.3		1431	7	6 7/8	6 7/8	
9 5/8	8 3/8	ACM Man	0.90	9.5		512	u9 5/8	9 1/2	9 1/2	
13 7/8	6 1/8	Acme Elect	0.32	4.5	118	36	7 1/4	7 1/8	7 1/8	
17 1/2	13 7/8	Acme Mills			10	28	16 3/4	16 5/8	16 3/4	+1/8
33 3/4	27 1/4	Acordia	0.72	2.4	18	57	30 5/8	30 5/8	30 5/8	
21 3/8	12	Acuson			65	1431	17 1/2	17 1/4	17 1/8	-1/4
19 3/4	17 7/8	Adams Expr	0.49	2.5	1	292	19 5/8	19 1/2	19 1/2	
21 1/4	10 1/4	AdvMic			10	16739	18 1/4	15 1/8	16	+1 1/4
11 1/8	8 1/2	Advest Grp	0.16	1.6	7	73	10	9 7/8	9 7/8	
20 1/8	9 1/8	Advo Inc	0.10	0.95	50	738	11 1/2	11	11	-3/8
51 1/2	41 1/8	Aegon	1.46	2.9	15	25	50	50	50	
6 3/4	3 1/2	Agritc			3	61	4 7/8	4 3/4	4 7/8	-1/8
70 3/4	57 5/8	Aetna	0.80	1.2	7	6382	68 7/8	66 3/4	68 3/4	+7/8
37	28 1/4	Aflac	0.40	1.1	15	1554	u37	36	36	-3/8
21 1/8	17 1/8	AGL Res	1.06	5.6	15	185	19 1/4	18 7/8	19	-1/8
28	21 1/4	Ahmnsn	0.88	3.3	7	1060	26 3/4	26 3/8	26 1/2	+1/4
60 7/8	50 3/8	AirPrC	1.10	1.9	15	1788	58 1/8	57 3/4	57 7/8	-1/8
28 3/4	19 7/8	Airborne Frt	0.30	1.5	13	430	20 5/8	20 3/8	20 5/8	+1/8
24 3/4	15 1/2	Airgas Inc			36	447	24 3/8	23 3/4	24 1/8	+1/8
18 7/8	13 1/4	Airlease	1.80	12.0	9	69	15 1/4	15	15	
33 5/8	25	AirTch			79	10081	28 5/8	27 3/4	27 7/8	-5/8



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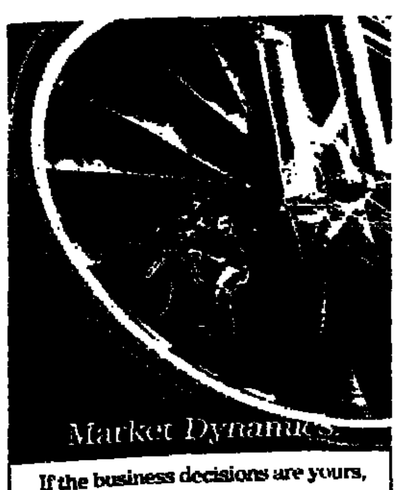
4 pm close September 25

NEW YORK STOCK EXCHANGE PRICES

[illegible]

32⅞	24⅞	BrchGd	0.12	0.5	33	11672	26¾	25¾	26¾	-⅛
16	11½	BarryRG			15	107	13¼	12½	13¼	+½
11⅝	7⅛	BatlMt	0.05	0.6	163	2500	8¼	8	8	-¼
44½	32½	Bausch	1.04	2.8	22	1947	37⅛	36½	36½	-¼
48⅛	39¾	Baxter	1.21	2.7	19	11599	45⅛	44¼	44⅞	+⅝
43⅞	20¼	BayNtwks			29	22315	30⅝	29⅝	30	+½
29⅞	25⅞	Bay St Gas	1.54	5.7	12	35	27	26⅝	26⅝	-⅛
40⅞	15¾	BBN				5 1002	18½	17⅝	18	-½
22¾	19⅜	Bd Tr 1838 x	1.56	8.0		9	19½	d19⅜	19½	+⅛
8⅞	7¾	BEA IncFd	0.72	9.1		7965	8	d7¾	7⅞	-⅛
9⅛	8⅝	Bea Strat	0.81	8.9		412	9⅛	9	9⅛	
24⅞	17¼	Bear Sms	0.60	2.6	6	1049	22⅞	22¼	22¾	-⅛
44⅞	41	BearSPIA	2.85	6.4		2100	44⅝	44⅝	44⅝	
33¾	24	Bearings	0.56	2.0	14	95	28	27¾	27⅝	-¼



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FINANCIAL TIMES Thursday September 26 1996

Dow mixed despite technology gains

AMERICAS

US shares were mixed at midsession as the market continued to digest Tuesday's news that the Federal Reserve had decided against raising short-term interest rates, *writes Lisa Bransten in New York.*

At 1 pm the Dow Jones Industrial Average was off 5.18 at 5,868.85, while the Standard & Poor's 500 gained 0.41 at 686.02. The American Stock Exchange composite added 1.06 at 564.46. NYSE volume was 263m shares.

The Nasdaq composite added 4.41 at 1,219.58 and the Pacific Stock Exchange technology index was 0.3 per cent stronger.

The Fed's decision to leave interest rates unchanged left economists divided about the course of monetary policy through to the end of the year. Data due next week – particularly Friday's figures on September employment – should go some way to help economists to form a consensus on the interest rate outlook.

Technology shares were helped by a strong earnings report from 3Com, the computer networking company. By midsession 3Com's shares had advanced $6⅛ or 12 per cent at $63⅝. Cisco Systems, another computer networking company and the third largest company on the Nasdaq, was up $2⅜ or 4 per cent at $62⅞.

Declines among oil companies weighed on the Dow. Exxon fell $1 at $85¼, Texaco lost $1 at $94⅛ and Chevron was $⅜ weaker at $62.

Shares on Loral Space & Communications jumped $1⅞ or 14 per cent at $15⅜ on news that it would buy the AT&T's Skynet Satellite Services division for $712.5m in cash. AT&T lost $⅜ at $51⅛.

Lehman Brothers added $⅝ at $23⅞ after the investment bank reported stronger earnings than many analysts had expected.

Profit warnings hurt a number of shares. Checkpoint Systems fell $9 or 25 per cent to $27⅝ after warning its third quarter earnings would be about 5 cents below analysts' estimates.

TORONTO moved higher in moderate volume to end the morning session with the 300 composite index ahead 13.03 at 5,312.69.

Dealers said the session had been mixed with six of the index's 14 sub-sectors showing losses.

Property led the upside while forestry was the heaviest loser.

SOUTH AFRICA

South African shares made a strong return after Tuesday's Heritage Day shutdown for Johannesburg. Golds came off the top but still ended well ahead, and industrials were also buoyant.

The overall index gained 41.9 to 6,959.8. Industrials added 33.1 to 8,204 and golds were 29.4 higher at 1,751. Among the leaders, De Beers gained R1 to R141.25, Stanbic R5 to R190 and Sasol 50 cents to R55.

The better bullion price continued to push golds higher. Freegold was 50 cents better at R46.50 and Kloof gained R1 to R39.

Caracas advance continues

Caracas kept the flame alight for Latin America after a morning session that saw most stock markets move lower.

Mexico City, Buenos Aires and Sao Paulo all lost ground, but there was another solid improvement for Caracas which by the lunch-time bell was showing a gain of about 1.4 per cent.

Caracas has been pushing up to new highs lately and yesterday some initial weakness was quickly shrugged off. At noon the IBC index was 72.39 higher at 511.26.

MEXICO CITY was trailing by 6.99 at 3,298.6 on the IPC index at the end of morning trading. Dealers said that the uncertain start on Wall Street and Tuesday's higher than expected Mexican inflation data had soured sentiment.

BUENOS AIRES, a flat market on Tuesday, drifted down during early trading and at noon the Merval index was showing a decline of 0.11 at 545.33.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: Sept 20th 1996	% Change over week	% Change on Dec '95	Local currency terms: September 20th 1996	% Change over week	% Change on Dec '95
Latin America	(249)	540.20	+0.9	+14.5			
Argentina	(31)	842.63	+1.2	+5.2	516,812.17	+1.2	+5.2
Brazil	(68)	380.25	+1.6	+34.5	1,450.85	+1.8	+30.7
Chile	(43)	711.91	+0.9	-4.9	1,173.67	+0.8	-3.8
Colombia[1]	(15)	617.46	+0.0	+3.2	1,132.58	-0.6	+7.9
Mexico	(66)	546.27	+0.1	+21.0	1,783.19	+0.5	+18.4
Peru[2]	(21)	223.53	-0.5	+13.3	340.93	-0.1	+22.8
Venezuela[3]	(5)	556.32	+4.6	+66.4	6,077.46	+4.3	+132.8
Asia	(632)	252.84	+1.0	-8.8			
China[4]	(24)	58.81	+0.0	-8.7	61.63	+0.0	+8.4
South Korea[5]	(145)	92.14	-4.4	-26.8	99.33	-4.5	-22.6
Philippines	(35)	311.87	+1.2	+20.2	395.31	+1.2	+20.2
Taiwan, China[6]	(83)	147.66	-0.3	+30.9	152.45	-0.3	+31.9
India[7]	(76)	96.75	-0.6	+8.0	109.98	-0.6	+9.8
Indonesia[8]	(44)	117.05	+4.4	+8.7	147.45	+4.2	+8.2
Malaysia	(123)	321.19	+1.4	+18.5	296.54	+1.5	+16.7
Pakistan[9]	(25)	224.29	+5.4	-7.6	377.55	+5.4	+0.1
Sri Lanka[10]	(5)	95.01	+0.7	-8.7	116.91	+1.4	-3.3
Thailand	(72)	289.38	+0.7	-23.0	291.67	+0.6	-22.4
Euro/Mid East	(238)	141.08	+1.3	-0.4			
Czech Rep	(5)	73.73	-1.0	+22.9	65.50	-0.4	+23.1
Greece	(47)	261.02	+0.5	+8.1	425.40	+0.4	+9.9
Hungary[11]	(8)	174.22	-0.7	+77.0	322.69	-0.6	+99.4
Jordan	(8)	181.53	-0.4	-1.7	271.21	-0.4	-1.6
Poland[12]	(22)	776.60	+2.6	+82.2	1,365.81	+2.9	+106.3
Portugal	(26)	135.25	-0.1	+16.8	143.57	-0.3	+20.8
South Africa[13]	(63)	229.21	+1.0	-11.2	213.16	+1.0	+9.7
Turkey[14]	(54)	136.80	+5.5	+30.9	5,836.15	+7.0	+95.2
Zimbabwe[15]	(5)	422.78	-5.8	+53.9	641.14	-5.3	+70.0
Composite	(1119)	298.42	+1.0	+8.2			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Czech shares continued to slide lower yesterday as worries about the economy and the continuing fall-out from the recent banking crisis sparked a further round of profit-taking, writes Jeffrey Brown.

The Czech bourse has been one of the stronger eastern European performers this year, eclipsed only by the dramatic upsurges in the smaller Polish and Hungarian stock markets. But over the past three days the PX50 index has fallen by more than 6 per cent in above average trading volume.

Investor confidence has been badly shaken by last month's collapse of Kreditni banka and, more recently, the arrest of three directors of Motoinvest, an investment group with $4m of funds under management.

The two events, given the Czech Republic's tightly-linked system of bank ownership, have triggered a banking liquidity crisis and begun to spill over into the political arena. These factors have coincided with negative news from the economy. Growth is slowing and the trade deficit is widening. Exports, up 12 per cent in the first quarter of 1996 year-on-year, slackened to growth of 1.6 per cent in the second three months, with June exports in decline.

The trade deficit for August, published yesterday, weighed in at the equivalent of $548m. This was 30 per cent up on August last year and pushed the eight-month total to a record $3.9bn.

Amid concern over the possibility of a devaluation and a rise in interest rates, the PX50 closed at 547.4 yesterday, against its September 5 peak of 582.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY SEPTEMBER 24 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY SEPTEMBER 23 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (78)	200.45	0.1	190.73	139.08	157.69	168.89	0.5	4.51	200.17	190.61	138.98	157.49	168.03	212.18	179.77	184.40
Austria (24)	177.08	-0.5	168.50	122.87	139.31	139.21	-0.5	2.02	177.94	169.45	123.56	140.01	139.91	195.04	168.11	180.99
Belgium (27)	216.64	-0.1	206.13	150.31	170.43	166.47	-0.1	4.01	216.83	206.48	150.55	170.60	166.62	218.89	190.88	196.61
Brazil (28)	184.66	0.3	175.71	128.13	145.27	346.60	0.3	1.87	184.10	175.31	127.83	144.85	345.62	189.70	123.97	154.40
Canada (117)	169.12	0.2	160.92	117.34	133.04	167.49	0.2	2.15	168.81	160.75	117.21	132.82	167.08	169.12	134.14	143.88
Denmark (30)	319.26	-0.6	303.79	221.52	251.16	252.22	-0.8	1.82	321.30	305.96	223.08	252.80	254.11	321.85	276.89	282.98
Finland (23)	209.53	-0.4	199.37	145.38	164.84	199.90	-0.1	2.50	210.40	200.36	146.09	165.54	200.01	265.87	171.73	261.33
France (93)	195.11	0.7	185.65	135.38	153.49	156.73	0.7	3.10	193.78	184.53	134.54	152.47	155.70	198.39	167.70	172.70
Germany (58)	177.42	0.4	168.82	123.10	139.57	139.57	0.4	1.76	176.72	168.29	122.70	139.05	139.05	177.93	155.66	162.56
Hong Kong (59)	438.87	-0.7	417.59	304.50	345.25	435.68	-0.7	3.51	441.95	420.85	306.85	347.72	438.73	451.19	354.67	373.15
Indonesia (27)	208.30	0.5	198.20	144.53	163.87	296.20	0.5	1.62	207.27	197.38	143.91	163.08	294.77	–	–	–
Ireland (16)	293.47	-0.3	279.24	203.62	230.87	258.03	-0.3	3.47	294.34	280.29	204.36	231.59	258.84	298.00	241.27	248.41
Italy (58)	74.29	-0.9	70.68	51.54	58.44	84.44	-0.9	2.55	74.93	71.36	52.03	58.96	85.19	84.53	67.22	77.18
Japan (481)	146.03	0.0	138.95	101.32	114.88	101.32	-0.1	0.75	146.10	139.12	101.44	114.95	101.44	164.68	137.75	144.86
Malaysia (107)	561.85	-0.4	534.61	389.83	442.00	541.25	-0.4	1.21	564.02	537.10	391.61	443.77	543.26	585.09	425.77	507.49
Mexico (19)	1255.46	0.3	1194.60	871.09	987.66	10347.08	-0.4	1.30	1251.37	1191.63	868.84	984.57	10387.92	1325.65	791.99	1150.29
Netherland (19)	299.22	0.4	284.71	207.61	235.39	231.74	0.5	3.17	297.95	283.73	206.87	234.43	230.70	304.24	251.81	259.51
New Zealand (15)	87.60	0.9	83.36	60.78	68.92	66.61	0.9	4.12	86.78	82.64	60.25	68.28	66.01	87.60	75.94	78.75
Norway (35)	254.27	0.1	241.94	176.42	200.03	223.12	0.1	2.29	253.91	241.79	176.29	199.76	222.77	258.94	222.24	236.18
Philippines (22)	206.03	-0.2	196.05	142.95	162.09	269.48	-0.2	0.60	206.42	196.56	143.32	162.41	269.93	–	–	–
Singapore (44)	399.54	-0.6	380.17	277.22	314.32	259.19	-0.6	1.08	402.03	382.83	279.13	316.31	260.72	465.21	361.94	365.93
South Africa (44)	348.34	0.0	331.45	241.69	274.03	343.64	0.0	2.29	348.41	331.78	241.91	274.13	343.84	437.76	314.20	353.39
Spain (37)	179.18	1.0	170.49	124.32	140.96	172.80	1.1	3.39	177.34	168.87	123.13	139.53	171.00	193.85	145.15	152.66
Sweden (48)	375.56	1.5	357.35	260.58	295.45	366.29	1.3	2.33	370.06	352.41	258.95	291.18	361.56	375.98	294.19	310.29
Switzerland (37)	241.80	0.5	230.07	167.77	190.22	185.46	0.7	1.59	240.48	229.00	166.97	189.21	184.11	254.34	213.95	215.44
Thailand (45)	137.99	0.8	131.30	95.74	108.56	135.93	0.8	2.52	136.97	130.43	95.10	107.76	134.90	193.95	128.90	165.49
United Kingdom (200)	246.23	-0.2	234.29	170.84	193.71	234.29	-0.2	4.08	246.62	234.85	171.23	194.04	234.85	250.30	220.85	224.66
USA (623)	279.34	-0.1	265.80	193.82	219.76	279.34	-0.1	2.19	279.65	266.30	194.17	220.03	279.65	279.95	236.38	237.82
Americas (787)	255.50	-0.1	243.11	177.28	201.00	214.64	-0.1	2.12	255.73	243.52	177.56	201.21	215.04	256.00	216.17	217.58
Europe (705)	215.77	0.2	205.30	149.71	169.74	187.40	0.2	3.06	215.28	205.00	149.47	169.38	187.01	217.74	191.44	195.49
Nordic (136)	320.92	0.8	305.36	222.67	252.46	275.21	0.7	2.27	318.49	303.29	221.13	250.59	273.33	322.00	261.19	288.87
Pacific Basin (676)	160.07	-0.1	152.31	111.07	125.93	112.98	-0.1	1.22	160.23	152.58	111.25	126.07	113.11	177.01	148.86	155.68
Euro-Pacific (1383)	183.15	0.1	174.27	127.07	144.08	141.05	0.0	2.12	183.04	174.30	127.08	144.01	141.00	190.57	166.61	172.17
North America (740)	272.62	-0.1	259.41	189.16	214.47	271.93	-0.1	2.19	272.89	259.86	189.47	214.71	272.19	273.13	230.17	231.99
Europe Ex. UK (505)	194.47	0.4	185.04	134.93	152.99	160.39	0.5	2.48	193.62	184.38	134.43	152.34	159.67	195.76	170.51	176.47
Pacific Ex. Japan (397)	287.30	-0.3	273.38	199.34	226.02	247.99	-0.2	2.99	288.13	274.37	200.05	226.70	248.38	295.69	243.59	258.12
World Ex. US (1791)	184.91	0.1	175.94	128.30	145.48	145.98	0.0	2.12	184.76	175.96	128.30	145.39	145.92	191.55	167.36	173.28
World Ex. UK (2214)	211.26	0.0	201.02	146.58	166.20	179.35	-0.0	1.92	211.26	201.17	146.67	166.21	179.35	213.05	185.61	189.98
World Ex. Japan (1933)	251.14	-0.0	238.97	174.25	197.57	237.32	-0.0	2.49	251.15	239.16	174.37	197.60	237.32	251.99	217.26	219.96
The World Index (2414)	214.31	0.0	203.92	148.69	168.59	184.32	0.0	2.12	214.33	204.09	148.81	168.63	184.37	214.95	188.87	193.01

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Market closed 24/9/96: South Africa. Latest prices were unavailable for this edition.

Bonds and $ spur Frankfurt to peak

EUROPE

Shares in FRANKFURT pushed deeper into new high ground, motivated by a strong bond market and a recovery for the dollar. At the close, the Dax index was up 19.68 at an Ibis-indicated 2,683.10.

Bunds, spurred by the lack of an interest rate rise by the Federal Reserve, pushed ahead strongly. And with the dollar recovering from the low levels touched in late trading on Tuesday, equity volume was comfortably above average.

Dealers said that many investors, having pulled out of the market on the expectation of a rate increase of 25 basis points or more by the Fed, had been forced buyers.

Chemicals stayed in demand with BSAF heading the day's activity charts. The shares gained almost 2 per cent, adding 91 pfg to DM48.97. Banks were among the best overall performers. Bayerische Hypo put on DM1.36 to DM43.83 and Bayerische Vereinsbank added DM1.07 to DM53.65.

Supported by US buying, Lufthansa gained DM5.30 to DM219.30. Odd man out was Volkswagen, which came off 25 pfg to DM574.

PARIS broke back above the 2,100 level on the CAC-40 to push the index up to within 44 points of April's peaks. The CAC-40 ended with a gain of 21.91 to 2,103.41. Promodes, the retailer, jumped nearly 4 per cent on the news that it was to take full control of Gruppo G, the Italian supermarket chain. The shares put on FFr51 to FFr1,372.

Among the banks, BNP rose FFr2.60 to FFr192.7, while Alcatel Alsthom improved FFr5.50 to FFr401 ahead of today's interim statement. Renault gained FFr4.70 to FFr128.8 after the motor giant announced a new marketing initiative.

Eurotunnel turned in the day's strongest individual performance, adding 40 centimes to FFr9, a rise of 4.7 per cent. On the downside, the luxury goods group, LVMH, came off FFr32 to FFr1,101.

MILAN moved swiftly higher, following bonds and a firmer lira, while changes to the Mib30 index of blue chip shares also encouraged buying interest. The Comit index rose 8.95 to 609.10 while the real-time Mibtel index was 194 higher at 9,743.

Telecom stocks were in demand after Tuesday's news of a 27 per cent rise in first half results at Telecom Italia. The shares rose L15 to L8,173, while Tim added L105 to L3,118 and Stet was L152 higher at L4,948.

The insurance sector featured a L498 rise to L13,882 for Ras on higher first half parent company net profits.

Among the day's other corporate reporters, Montedison was L27.4 higher at L920 while Compart was L16.4 higher at L514.4.

Elsewhere, Pirelli, which reports first half results today, was L38 higher at L2,693 while Eni was L232 ahead at L8,361.

The troubled Olivetti, which said it would meet financial analysts in Milan and London next week, after publishing its full first half 1996 financial report next Monday, was marked L22.9 lower at L622.8.

AMSTERDAM kept in step with the upturn across Europe with the AEX index closing up 6.64 at 570.61 after Dutch international stocks met strong buying interest.

Philips, up Fl 2.10 at Fl 62.70, topped the day's performance charts. Akzo continued to improve following positive comment on its new anti-depressant drug. The shares rose Fl 5.20 to Fl 204.10. KLM gained 80 cents to Fl 44.10, and leading brewer Heineken gained Fl 7.50 to Fl 316.

ZURICH made progress, briefly testing the 3,700 point level on the SMI before shares came back from their best levels, leaving the index to close 36.5 higher at 3,697.7.

The heavily-traded UBS bearers shares advanced SFr6 to SFr1,190. Analysts said that continuing speculation that the bank may sell its majority stake in Motor Columbus outweighed news that Mr Martin Ebner's BK Vision investment fund planned to appeal against a Zurich court ruling that upheld the bank's plans for a single share.

Elektrowatt added SFr9 to SFr500 ahead of its press conference on Monday and as UBS declined to comment on rumours of a merger between the company and Motor Columbus.

Saurer soared SFr28 to SFr631 as the textile machinery and engineering group raised its full year profits forecast, saying that its restructuring was progressing faster than expected.

Among insurers, Winterthur jumped SFr14 to SFr774 while Zurich was flat at SFr337 after its SFr105m bid for the Norwegian insurance group, Protector.

The Novartis partners rallied. Ciba rose SFr23 to SFr1,581 and Sandoz climbed SFr21 to SFr1,483. Roche rose SFr75 to SFr9,155.

MADRID was pulled forward by a strong performance by the banks, while gains in bonds and the currency also provided support ahead of tomorrow's 1997 budget announcement. The general index rose 3.26 to 365.04.

Among the banks, BCH rose Pta85 to Pta2,825, helped by forecasts of improving results, while Argentaria picked up Pta120 to Pta5,340. Analysts noted that the short term outlook was positive, with a continued run in bonds providing the focus, and a cut in the Bank of Spain's key money rate expected next week.

Written and edited by Michael Morgan and Jeffrey Brown

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Sep 25 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1705.54	1707.51	1707.81	1708.60	1708.63	1711.20	1711.41	1711.38
FT-SE Eurotrack 200	1755.97	1757.13	1757.25	1758.00	1757.58	1760.32	1760.71	1760.67

	Sep 24	Sep 23	Sep 20	Sep 19	Sep 18
FT-SE Eurotrack 100	1698.30	1696.50	1709.02	1695.76	1693.39
FT-SE Eurotrack 200	1749.99	1750.10	1765.24	1765.46	1761.43

Base value 1000 (26/10/90); High/day: 100 - 1711.98; 200 - 1762.08 Low/day: 100 - 1705.16 200 - 1754.96. † Partial.

High-tech rally propels Nikkei ahead

ASIA PACIFIC

Reports of a rise in memory chip prices prompted a rally in TOKYO's high-technology stocks and the Nikkei index closed up 0.8 per cent, *writes Emiko Terazono.*

The Nikkei 225 index closed up 178.68 at the day's high of 21,350.67. After an early low of 21,150.23, the index gained ground on reports of rising prices for 16 megabit dynamic random access memory chips, which triggered buying of semiconductor related stocks. An injection of public funds also underpinned the market.

The Topix index of all first section stocks rose 12.89 to 1,602.37 and the Nikkei 300 closed up 2.95 to 299.99. Winners led losers by 591 to 441 with 193 issues remaining unchanged.

Volume totalled 266m shares against 281m. Overseas investors chased high-technology shares while brokerage dealers placed buying orders in small lots.

Of the 1,287 issues listed on the first section, gainers led losers by 591 to 441, with 193 issues remaining unchanged.

In London, the ISE/Nikkei 50 index rose 0.87 to 1,446.44.

Blue chip electricals gained ground. NEC, the most active issue of the day, rose Y60 to Y1,290, Fujitsu gained Y31 to Y1,030 and Oki Electric Industry added Y34 to Y743. Consumer electronics companies were also higher with Matsushita Electric Industrial up Y30 to Y1,850. Sony, however, fell Y10 to Y6,950.

Car stocks move higher with Toyota Motor up Y10 to Y2,780 and Nissan Motor adding Y10 to Y900.

Property developers were higher on speculation that the conservative Liberal Democratic Party, expected to gain power after next month's election, could implement measures to support property prices. Mitsui Fudosan rose Y50 to Y1,450, Mitsubishi Estate gained Y60 to Y1,510 and Sumitomo Realty and Development rose Y34 to Y860.

The OSE average rose 69.12 to 21,919.44 in volume of 74.8m shares.

SEOUL finished 2 per cent higher in spite of some late afternoon selling as domestic investors prepared for next week's expansion of the foreign shareholdings limit.

The composite index ended 15.30 ahead at 793.21, after a high of 796.46 in active volume of 30.2m shares.

Among shares to end at their upper trading limits, Samsung Electronics rose Won3,600 to Won63,800, LG Electronics added Won700 to Won14,000 and Pohang Iron and Steel gained Won2,500 to Won45,500.

HONG KONG ended firm, although well off the day's highs, after rotational trade in blue chips. Investors took the opportunity for portfolio re-positioning after interest rate uncertainty had been eased by the US decision to hold rates steady.

The Hang Seng index finished 56.83 higher at 11,608.53 after a late morning high of 11,658.36 points, in turnover of HK$5.4bn.

The property sector led the market, gaining 0.8 per cent, with Cheung Kong, a recent underperformer, up HK$1 to HK$56.70.

WELLINGTON hit a 30-month peak in early trading but drifted lower through the rest of the session to close at 2,244.10, down 4.09. The best of the day was 2,252.20.

SYDNEY closed higher on the back of a bond market rally and stronger resources and bank shares. The All Ordinaries added 24.1 to 2,352.8. BHP gained 28 cents to A$16.30.

BANGKOK closed lower with the SET index down 7.27 at 1,034.94 as investor frustration at the lack of political progress spilled over into active selling.

The market initially rose on the announcement that prime minister Banharn Silpa-archa is to resign. Leaders of the six-party coalition are expected to announce a successor soon.

SINGAPORE saw further demand for Creative Technology, up S$1.45 to S$9.20 on arbitrage buying and an upgrade of the stock by Merrill Lynch. The Straits Times Industrials index added 4.92 to 2,165.19.

KUALA LUMPUR's small cap stocks found further retail interest, which took the Second Board index up 2.7 per cent to another closing high, while the blue chip composite index ended the session 5.59 higher at 1,129.31.

KARACHI dropped below 1,400 on the 100-share index following demands for a one-day strike from the opposition alliance. The index ended 21.23 lower at 1,381.96.

The Leading Edge in Asia Pacific

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